

**State of Montana**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2006

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**State of Montana**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For the Fiscal Year Ended June 30, 2006

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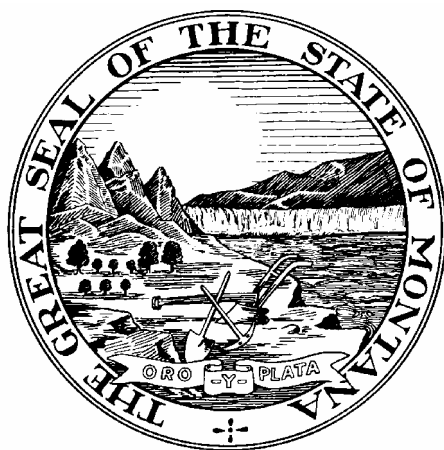
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# INTRODUCTORY SECTION



# DEPARTMENT OF ADMINISTRATION

## DIRECTOR'S OFFICE



BRIAN SCHWEITZER, GOVERNOR

JANET R. KELLY, DIRECTOR

# STATE OF MONTANA

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December 21, 2006

To the Citizens, Governor and Members of the Legislature of the State of Montana:

In accordance with Title 17, Chapter 2, Part 110, Montana Code Annotated (MCA), I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the State of Montana for the fiscal year ended June 30, 2006. Responsibility for the accuracy of the data presented and the completeness and fairness of the presentation rests with the Department of Administration. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State of Montana. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

### DESCRIPTION OF THE CAFR

This report and the accompanying financial statements and statistical tables were prepared in accordance with standards set forth by the Governmental Accounting Standards Board (GASB).

This CAFR is divided into three main sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, an organization chart for the State, and a table of contents. The financial section contains management's discussion and analysis, the independent auditor's report, government-wide financial statements, fund financial statements, notes to the financial statements, combining statements by fund type, and other schedules. The statistical section includes financial, economic, and demographic data.

This report includes all funds of those entities that comprise the State of Montana (the primary government) and its component units. The component units are entities that are legally separate from the State, but for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body; and (1) the State is able to impose its will on that organization; or (2) there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The following component units are included in the State's financial reporting entity: Housing Authority, Facility Finance Authority, State Compensation Insurance Fund (Old and New), Montana Surplus Lines, Montana State University, University of Montana, Public Employees Retirement Board, and Teachers Retirement System. These component units are discretely presented in the State's financial statements.

### PROFILE OF THE GOVERNMENT

Montana became the 41st state when it was admitted to the Union in 1889, 25 years after the attainment of territorial status. With an area of 145,552 square miles, Montana is the nation's fourth largest state. With an estimated current population of 927,000, it is also one of the nation's most sparsely populated states. It is a vast land: a land including rolling plains, the Northern Rocky Mountains, two national parks, wheat farms and cattle ranches, tribal lands, and extensive natural resources.

In 1972, a constitutional convention convened, rewriting the State's constitution and establishing the current governmental structure. As shown in the organizational chart on page 13, state government is divided into three separate branches: legislative, executive, and judicial. Montana's Legislature consists of 50 senators and 100 representatives elected from single-member districts. The Legislature meets in regular biennial sessions for 90 days in odd-numbered years. Montana is governed by its constitution, and its laws are administered by its executive branch officers and various

boards and commissions. State government services provided to citizens include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

## **ECONOMIC CONDITION AND OUTLOOK**

Montana's economy continues to grow at a high rate. The current estimated growth rate for Montana's economy in calendar year 2006 is estimated at over 4% and this trend is expected to continue through 2007. Montana's economic base remains concentrated in agriculture, mining, wood products and other manufacturing, nonresident travel, and government. This continued high growth rate is reflected in a strong State financial position at the end of the fiscal year and the related second quarter 2006 income increases in all sectors of Montana's economy. Montana's income tax revenues increased primarily as a result of this internal income growth and external factors such as trends in the stock market and the continued low level of U.S. interest rates. Montana corporate income tax revenues also increased due to increased overall profits of intrastate and interstate corporations. For a more in-depth analysis of the impact of this growth on the State's financial position, the reader should refer to Management's Discussion and Analysis and the financial statements contained in this document.

Montana's wheat yields were down in 2006, with winter wheat yields falling to 82.6 million bushels, 20% lower than the 2005 level. Spring and durum wheat yields are expected to reach 63.8 and 6.7 million bushels, respectively. This represents a decrease in spring and durum wheat of 22% and 59%, respectively. Montana's wheat production is projected to reach 153.1 million bushels, well below the State's 2005 production level of 192.5 million bushels. Barley production fell about 21% to an estimated 31 million bushels. The decrease in winter wheat production was primarily due to the seeding of fewer acres. The decreases in spring and durum wheat and barley are primarily due to the impacts of a very hot, dry summer. At this time, wheat prices should remain high in the U.S. due to lower overall production in the U.S. and Australia.

With an estimated 2.4 million head, Montana ranked twelfth in the U.S. cattle and calf industry. Montana's 2005 receipts from cattle sales exceeded \$1.1 billion.

As of the end of calendar year 2005, Montana's manufacturing sector improved slightly for a second year. Employment in this industry increased, with over 25,000 workers employed at the end of 2005, as compared to 24,000 workers at the end of 2004. Employee earnings in the manufacturing industry increased to over \$1.1 billion in 2005. The manufacturing sector continued to produce about \$5 billion in output and account for 20% of Montana's economic base. Production, sales and earnings were up in 2005, reflecting the strong U.S. economy. Factors limiting growth in Montana's manufacturing industry included high energy prices; labor availability; raw material shortages, especially in the timber, steel, and petroleum based products areas; and freight availability and prices.

Prices for lumber and other wood products decreased slightly at the end of 2005. This price decrease continued during 2006. This price decrease, coupled with the unavailability of raw materials, has led to a continuing decline in production. Limited timber availability was a primary cause of the Owens and Hurst sawmill closure in Eureka in 2005. Estimated total sales value of the State's primary wood and paper products in 2005 was \$1.17 billion, down about \$300 million from 2004. At about 9,700 the total wood products industry employment for 2005 was slightly lower than the actual 2004 level of 9,800 workers. Montana's estimated lumber production remained stable at about 1 billion board feet in 2005. Montana's timber production decreased during the first half of 2006. The June 2006 production level of 491 million board feet represents a 25 million board feet decrease over the same period in 2005.

Nonresident travel to Montana in 2005 increased an estimated 5% to over 10 million visitors. The visitor numbers for Glacier and Yellowstone national parks were mixed. While Yellowstone Park posted a 1% decrease in visitors, and Glacier Park saw a 5% decrease in the number of drivers, the visitations to the attractions within these parks was virtually unchanged. Motel occupancy posted a slight increase of 3.6% from the 2004 levels. Current estimates indicate that the travel industry will increase by approximately 2% in 2006. Nonresident travelers contribute to the tax base by paying the lodging tax, excise taxes such as those on gasoline, and indirectly, by supporting employment in industries that pay corporate taxes and whose workers pay income, property, and other taxes. Estimated travel expenditures in Montana totaled \$2 billion in 2005, which is a 2% increase from the 2004 level. The direct economic impact of

nonresident travel is estimated at \$2.5 billion, down slightly from 2005. Combined with the indirect and induced economic benefits, the economic benefit of nonresident travel on Montana should remain at approximately \$3.6 billion.

An estimated 364 million barrels of proven oil reserves exist under Montana's land. Due to the continued high crude oil and natural gas prices, the State has seen a continuation of the production and exploration activity that began in 2004. This continues to translate into a positive economic impact for the State as a whole and a much needed economic benefit for eastern areas of the State. This high level of oil and natural gas production and exploration activity continues to offset some of the negative impacts that related price increases have on the State's economy. With the oil price increase appearing to be demand rather than supply driven, it appears the additional production and exploration activity may be of a long-term nature.

Historically, metals mining has been a significant part of Montana's economy. While there is no published data on proven reserves for metals mining, Montana has produced copper, molybdenum, lead, zinc, palladium, gold, silver, nickel, chromate, and other metals. The state currently has five active metals mines producing primarily palladium, platinum, copper, molybdenum, gold, silver, lead, and zinc. These active mines employ over 900 employees. With the continued high metals prices driven by world-wide demand, potential exists for the development of additional metals mines in Montana. Regulatory and siting issues, in addition to the high cost of the fuel and power required to extract these metals, will impact the potential future development in metals mining within the State.

Montana's total coal reserves were estimated at 119,280 million short tons with recoverable reserves of 74,989 million short tons. This represents 24% of the total, and 28% of the recoverable, reserves in the U.S. During 2005 Montana's coal production grew slightly to 40,354 thousand short tons. The continued high cost of oil and natural gas has led to an agreement to develop one of the nation's first coal-to-liquids plants in Montana. Additionally, siting and permitting is in process for construction of the first new major power transmission line in Montana since the 1970s. Both of these actions represent a move toward the development of value-added processing of coal within the State, in addition to the State's traditional coal mining.

## **MAJOR INITIATIVES**

In December of 2005, a special legislative session was held to meet the court order to provide constitutionally required school funding. The session resulted in an additional \$37 million in ongoing funding to K-12 schools beginning in fiscal year 2007. In addition, one-time appropriations for a study of school facilities, current faculty and rapidly increasing utility costs totaled \$34 million. This special session also provided \$125 million in transfers from the general fund to the retirement systems to reduce their actuarially calculated unfunded liabilities. \$100 million was transferred to the Teachers Retirement System and \$25 million was transferred to the Public Employees Retirement System.

## **FINANCIAL INFORMATION**

Montana's Statewide Budgeting, Accounting, and Human Resource System (SABHRS) is a centrally maintained, fully computerized, double-entry accounting system. SABHRS records are computer-edited.

Management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss or misuse, and that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. In developing and evaluating the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that the above objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary restrictions are imposed via appropriations approved by the Legislature or established administratively as provided for by state law. Appropriations are required by state law for the general, state and federal special revenue, and capital projects funds. The level of budgetary control is generally established by fund. SABHRS is designed to provide budgetary control by preventing spending in excess of legislative and administrative authority and/or available cash. SABHRS also provides for encumbrance accounting as a technique for accomplishing budgetary control.



### **General Fund Balance**

The unreserved, undesignated fund balance of the General Fund increased from \$289.7 million at June 30, 2005, to \$408.9 million at June 30, 2006. This represents an increase of \$117.5 million (or 40.6%).

### **Pension Trust Fund Operations**

The State contributes to eight retirement plans and is the administrator of two additional plans. The two largest plans, in terms of dollars contributed and employees covered, are the Public Employees Retirement System - Defined Benefit Retirement Plan and the Teachers Retirement System.

The 1997 Legislature enacted legislation that establishes a guaranteed annual benefit adjustment (GABA) for enrolled members or surviving beneficiaries under each of the statewide public employee retirement plans. The annual maximum adjustment of 3% begins 36 months after a beneficiary's initiation date. The benefit adjustment, when combined with other benefit adjustments already in law, must equal a maximum of 3% per year. The GABA automatically covers beneficiaries in the retirement plans for public employees, sheriffs, and game wardens. Beneficiaries in the retirement plans for highway patrol officers, municipal police officers, firefighters unified, and judges may choose to be covered by GABA, or by benefits adjustment mechanisms already in place. The legislation establishing the GABA also provides a mechanism to actuarially fund the Judges Retirement System.

The 1999 Legislature enacted legislation that also establishes a guaranteed annual benefit adjustment (GABA) for certain benefit recipients in the Teachers Retirement System. A benefit recipient is eligible for the maximum benefit adjustment of 3% if the retiree's most recent retirement effective date is at least 36 months prior to January 1 of the year in which the adjustment is to be made.

### **Cash Management**

The uniform investment program established by the 1972 Montana Constitution directs that the Board of Investments has sole authority to invest state funds. The board operates under the "prudent person principle", which requires the board to (1) discharge its duties in the same manner as that of a prudent person acting in a like capacity with the same resources and aims; (2) diversify the holdings of each fund to minimize the risk of loss and maximize the rate of return; and (3) discharge duties solely in the interest of, and for the benefit of, the funds managed. Permissible investments include bonds, notes, debentures, equipment obligations, common stock (pension trust and higher education funds only), commercial paper, bankers acceptances, interest bearing deposits in Montana financial institutions, real estate, and any other investment in a Montana business that continues existing jobs or creates new jobs. These investments are subject to statutory restrictions for quality and size of holdings.

Unless otherwise provided by law, treasury cash is pooled for investment regardless of the fund from which it is deposited, and the pool investment earnings are credited to the General Fund. The board reported total investment income from investments under its management of \$376 million, an increase of 7.7% from the \$349 million earned last year. The book value of board-managed investments increased by approximately \$886 million, or 9%, to \$10.7 billion at fiscal year-end 2006. The board publishes an annual audited report of all its investment activity. That report may be referenced for more in-depth investment information.

### **Risk Management**

Wage loss and medical expense benefits for injured state employees, excluding the Montana University System, are provided by the State Compensation Insurance Fund (State Fund). The State Fund is a nonprofit, independent public corporation that is managed and controlled by a seven-member board of directors. The Governor appoints the board members for four-year terms. Funding is primarily derived from the premiums paid by policyholders.

The Montana University System Workers Compensation Program provides self-insured workers compensation coverage for employees of the Montana University System. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000.

The State maintains self-insurance plans for employee comprehensive medical, prescription drug and dental coverage, and state property. Under the State Employee Group Benefits Plan, the State assumes all the risk for claims incurred by plan members including state employees, elected officials, retirees and their dependents with the following exceptions: the Vision Service Plan (VSP) Insurance Company insures vision care services; the Standard (Standard) Insurance Company insures life, accidental death and dismemberment, and long-term disability coverage; and UNUM Life Insurance Company insures the long-term care coverage offered to participants. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement System, and self-payment.

The Montana University System (MUS) Group Benefits Plan offers medical, dental, life, and vision insurance coverage to employees of the Montana University System, the community colleges, and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for a voluntary vision plan administered by VSP serving employees, retirees and their dependents and life insurance administered by Standard. Blue Cross/Blue Shield is the claims administrator for the self-insured indemnity plan. The plan includes three self-insured HMOs that are administered by Blue Cross, New West Health Services, and Peak. Managed Care Montana (APS) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management, and medical necessity review.

The state insurance program provides property/casualty insurance coverage for a broad range of risks including, but not limited to, accidental death/dismemberment, auto liability, auto comprehensive collision, aircraft, airports, boilers and machinery, crime, fine arts, foster care, general liability, professional liability, and property. Commercial excess insurance is purchased to cover catastrophic losses. Deductibles range from \$10,000 per occurrence to \$1,000,000 per occurrence. The state property program insures over \$2.8 billion of state-owned and leased buildings and contents with policy limits of 500,000,000 per occurrence (various sub limits and coverage restrictions apply). The State is entirely self-funded for auto liability and general liability, subject to the terms and conditions of the Montana Tort Claims Act (Title 2, Chapter 9, Part 305, MCA). The state's statutory caps are set by the Legislature at \$750,000 per claim/\$1,500,000 per occurrence (Title 2, Chapter 9, Part 108, MCA). Agency insurance premiums are allocated based upon risk exposure and loss experience.

### **INDEPENDENT AUDIT**

The financial statements contained in Montana's Comprehensive Annual Financial Report were audited in accordance with generally accepted auditing standards by the State's Legislative Audit Division. The Legislative Auditor is appointed by and reports to the Legislative Audit Committee. The Deputy Legislative Auditor issued an unqualified opinion on the State's financial statements for fiscal year 2006.

The Deputy Legislative Auditor added an additional paragraph to the unqualified opinion for 2006 emphasizing four of the retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2006. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In this additional paragraph, the Deputy Legislative Auditor also discusses the underfunding of the Sheriffs Retirement System. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations in the near future.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Montana for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. This was the sixteenth year out of seventeen years that the State received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program requirements; we are submitting it to GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Accounting Bureau and the cooperation of accounting personnel at the individual state agencies. I would like to express my appreciation to the Accounting Bureau and other agency personnel who participated in the preparation of this document. I would also like to thank the Legislature and all state agencies for their interest and support in planning and conducting the financial operations of Montana in a professionally responsible and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Janet R. Kelly". The signature is fluid and cursive, with the first name "Janet" being more prominent.

Janet R. Kelly, Director  
Department of Administration

A handwritten signature in black ink, appearing to read "Paul A. Christofferson". The signature is fluid and cursive, with the last name "Christofferson" being more prominent.

Paul A. Christofferson, CPA, Administrator  
Administrative Financial Services Division  
Department of Administration

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Montana

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

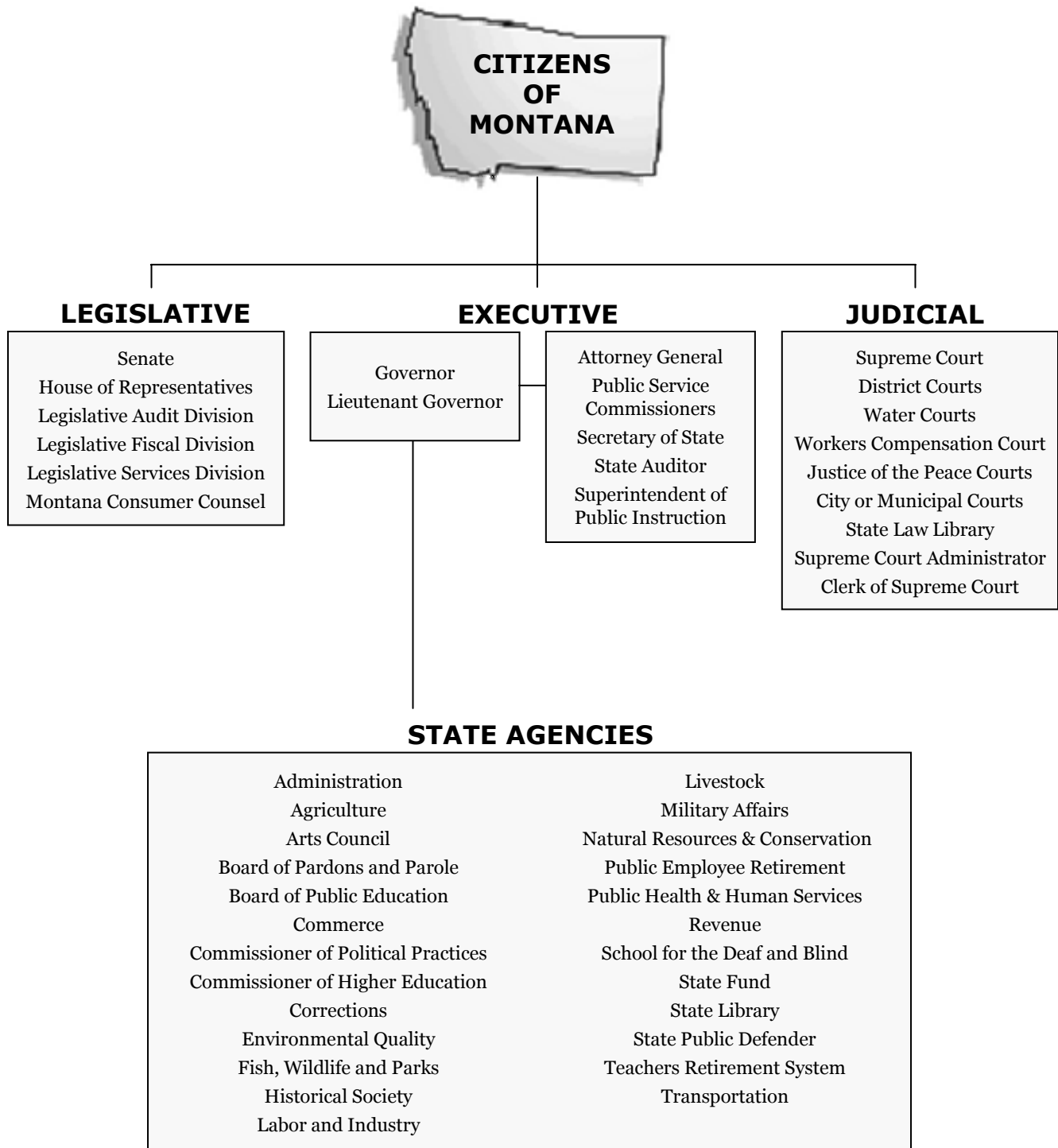
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# STATE OF MONTANA ORGANIZATION CHART



**State of Montana**  
**SELECTED STATE OFFICIALS**

**EXECUTIVE**

Brian Schweitzer

Governor

John Bohlinger

Lieutenant Governor

**JUDICIAL**

Karla Gray

Chief Justice

**LEGISLATIVE**

Jon Tester

President of the Senate

Gary Matthews

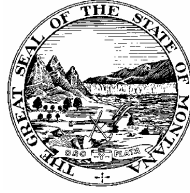
Speaker of the House

# FINANCIAL SECTION



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of and for the year ended June 30, 2006 which collectively comprise the state's basic financial statements, as follows:

- Statement of Net Assets
- Statement of Activities
- Balance Sheet - Governmental Funds
- Reconciliation of the Balance Sheet - Governmental Funds - to the Statement of Net Assets
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets - Fiduciary Funds
- Statement of Changes in Fiduciary Net Assets - Fiduciary Funds
- Combining Statement of Net Assets - Component Units
- Combining Statement of Activities - Component Units

These financial statements are the responsibility of the state of Montana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which represents 0.07 and 1.48 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We did not audit the financial statements of the Montana University System Self-Funded Workers' Compensation Program, which represents 0.07 and 0.14 percent, respectively, of the assets and revenues of the aggregate remaining fund information. We also did not audit the financial statements of the Montana State University component units and University of Montana component units, which represent 11.24 and 6.67 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Montana State Lottery, the Montana University System Self-Funded Workers' Compensation Program, and University component units, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement



presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the state of Montana, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Budgetary Comparison Schedule, and the Pension Plan Information listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the state of Montana's basic financial statements. The Combining Statements and Individual Fund Statements and Schedules listed in the table of contents are for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

At June 30, 2006, three retirement systems, Public Employees' (PERS-DBRP), Game Wardens' and Peace Officers' (GWPORS) and, Sheriffs' (SRS) retirement systems were not actuarially sound with Unfunded Actuarially Accrued Liabilities (UAAL) totaling \$460.2 million, \$5.1 million and \$8.8 million, respectively. The maximum UAAL to comply with the amortization period of 30 years at June 30, 2006, is \$269.9 million for PERS-DBRP, \$5.1 million for GWPORS, and \$(5) million for SRS. The negative \$5 million for SRS indicates that the current employer and employee contributions do not cover the current costs of the system. At July 1, 2006 the Teachers' Retirement System was not actuarially sound with an UAAL totaling \$863.1 million and a maximum UAAL of \$467.6 million to comply with the amortization period of 30 years.

In accordance with *Government Auditing Standards*, we have issued our report dated November 21, 2006, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It is included in the Legislative Auditor's separately issued report (06-01) on the State's basic financial statements.

The Introductory and Statistical Section listed in the table of contents were not audited by us, and accordingly, we express no opinion on them.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA  
Deputy Legislative Auditor

November 21, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

Management of the State of Montana provides this *Management's Discussion and Analysis* of the State of Montana's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative overview and analysis of the financial activities of the State of Montana is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the additional information that is furnished in the State's financial statements, which follow.

### FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

#### Government-wide Highlights

The assets of the State exceeded its liabilities at the end of fiscal year 2006 by \$6 billion (reported as net assets) compared with \$5.4 billion at the end of fiscal year 2005. Of this amount, \$665.7 million (reported as unrestricted net assets) may be used to meet the government's general obligations to citizens and creditors. Component units reported net assets of \$991.8 million compared with \$943.3 million at fiscal year 2005.

#### Fund Highlights

As of the close of fiscal year 2006, the State's governmental funds reported combined ending fund balances of \$2.9 billion compared with \$2.7 billion at fiscal year 2005. Of this amount, \$409.4 million is available for spending at the government's discretion (reported as unreserved fund balance). The remaining amount of \$2.4 billion is restricted for specific purposes, such as education. At the end of the fiscal year, unreserved fund balance for the General Fund was \$408.6 million compared with \$289.7 million in fiscal year 2005, which is an increase of \$118.9 million (or 41%).

The State's business-type activity funds reported net assets at the close of fiscal year 2006 in the amount of \$296.9 million compared with the fiscal year-end 2005 net assets of \$266.9 million. \$269.7 million of the business-type activity fund equity was restricted at fiscal year-end 2006 leaving an unrestricted balance of \$18.5 million. This represents a \$1.8 million (or 10.8%) increase from the fiscal year-end 2005 business-type activity fund unrestricted net asset balance of \$16.7 million.

#### Long-term Debt

The State's total bonds and notes payable for governmental activities increased by \$6.9 million, from \$421.6 million in fiscal year 2005 to \$428.5 million (or 6.9%) in fiscal year 2006.

Business-type activities reported bonds and notes payable of \$3.9 million at fiscal year-end 2006. This represents a decrease of \$1.3 million (or 25%) over the fiscal year-end 2005 reported amount of \$5.2 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Montana's basic financial statements. The State's basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains additional required supplementary information (budgetary schedules). These components are described below:

#### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *government-wide financial statements* and the *fund financial statements and combining major component unit financial statements*. These financial statements also include the *notes to the financial statements* that explain some of the information in the financial statements and provide more detail.

#### Government-wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's economic condition at the end of the fiscal year. These are prepared using

the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements.

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with state government fall into this category, including education (support for both K-12 public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation.

*Business-type Activities* – These functions are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The major business-type activities of the State include the Unemployment Insurance Fund and the Economic Development Bond Program that assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

*Discretely Presented Component Units* – These are operations for which the State has financial accountability, but they have certain independent qualities as well. For the most part, these entities operate similarly to private sector businesses and the business-type activities described above. The State has three authorities and two universities that are reported as discretely presented component units of the State.

### **Fund Financial Statements (Reporting the State's Major Funds)**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the state government, reporting the State's operations in more detail than the government-wide statements. All of the funds of the State can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

*Governmental Funds Financial Statements* – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

The State has five governmental funds that are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The State's five major governmental funds are the General Fund,

the State Special Revenue Fund, the Federal Special Revenue Fund, the Coal Severance Tax Fund, and the Land Grant Fund.

*Proprietary Funds Financial Statements* – When the State charges customers for the service it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery. An internal service fund reports activities that provide supplies and services for the State’s other programs and activities such as the Motor Pool.

*Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State’s own programs. Fiduciary funds use the accrual basis of accounting. A retirement fund is an example of a fiduciary fund.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component unit financial statements.

#### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes the reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund, as presented in the governmental fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Montana’s overall financial position improved over the last fiscal year. This improvement was caused by the combination of budgetary cuts enacted in the previous legislative session and stronger than expected statewide economic performance.

#### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The State’s combined net assets (government and business-type activities) totaled \$6 billion at the end of fiscal year 2006. Net assets of the governmental activities increased \$599.8 million (or 11.8%), and business-type activities had a \$30 million (or 11.2%) increase.

A portion of the State’s net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State’s net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the State’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Net Assets**  
**As of Fiscal Year Ended June 30**  
*(expressed in thousands)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
Current and other assets	\$3,407,149	\$3,562,620	\$373,018	\$410,309	\$3,780,167	\$3,972,929
Capital assets	2,805,658	3,240,577	9,670	9,110	2,815,328	3,249,687
Total assets	6,212,807	6,803,197	382,688	419,419	6,595,495	7,222,616
Long-term liabilities	451,012	451,014	7,150	9,766	452,005	460,780
Other liabilities	675,235	659,701	108,682	112,724	783,917	772,425
Total liabilities	1,120,090	1,110,715	115,832	122,490	1,235,922	1,233,205
Invested in capital assets, net of related debt	2,528,808	2,842,708	9,670	8,703	2,538,478	2,851,411
Restricted	2,159,185	2,202,592	240,514	269,687	2,399,699	2,472,279
Unrestricted	404,724	647,182	16,672	18,539	421,396	665,721
Total net assets	\$5,092,717	\$5,692,482	\$266,856	\$296,929	\$5,359,573	\$5,989,411

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

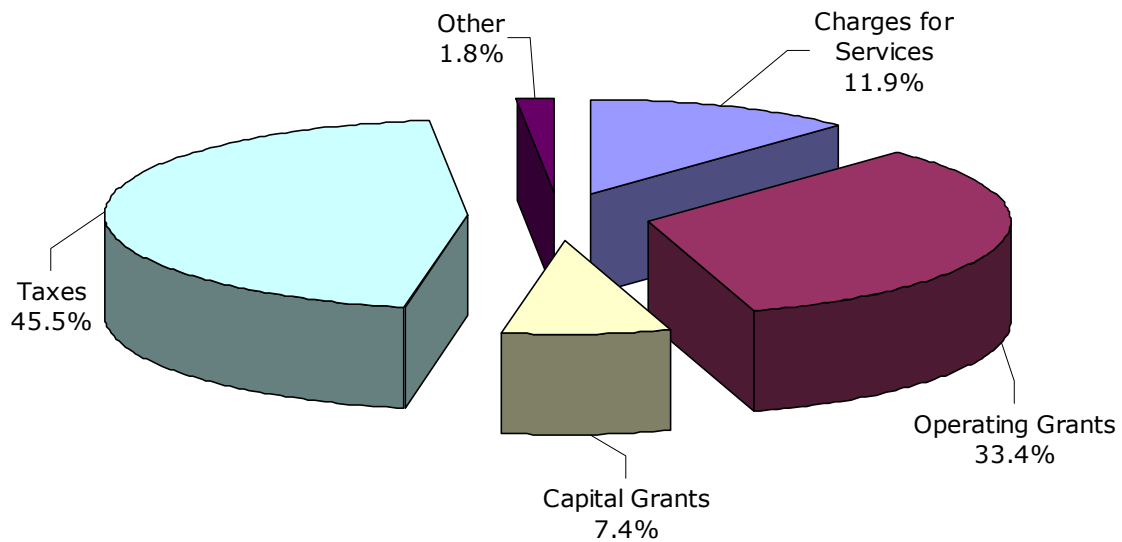
**Changes in Net Assets**  
**For Fiscal Year Ended June 30**  
*(expressed in thousands)*

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 443,984	\$ 487,767	\$236,365	\$257,729	\$ 680,349	\$ 745,496
Operating grants	1,391,026	1,371,109	58,433	58,051	1,449,459	1,429,160
Capital grants	319,434	305,345	159	378	319,593	305,723
General revenues						
Taxes	1,657,668	1,871,808	15,624	17,317	1,673,292	1,889,125
Other	85,497	73,388	3,135	5,162	88,630	78,550
Total revenues	3,897,609	4,109,417	313,716	338,637	4,211,323	4,448,054
<b>Expenses:</b>						
General government	305,819	525,981	-	-	305,819	525,981
Public safety/corrections	258,610	245,810	-	-	258,610	245,810
Transportation	281,074	216,942	-	-	281,074	216,942
Health/social services	1,182,281	1,270,056	-	-	1,182,281	1,270,056
Educational/cultural	900,542	976,046	-	-	900,542	976,046
Resource/rec/enviro	197,539	142,460	-	-	197,539	142,460
Econ dev/assistance	144,777	150,449	-	-	144,777	150,449
Interest on long-term debt	14,375	19,569	-	-	14,375	19,569
Unemployment Insurance	-	-	75,291	72,661	75,291	72,661
Liquor Stores	-	-	45,503	50,514	45,503	50,514
State Lottery	-	-	27,681	31,020	27,681	31,020
Economic Dev Bonds	-	-	2,630	3,441	2,630	3,441
Hail Insurance	-	-	3,153	4,632	3,153	4,632
Gen Govt Services	-	-	50,329	51,017	50,329	51,017
Prison Funds	-	-	5,268	5,356	5,268	5,356
MUS Group Insurance	-	-	40,524	52,139	40,524	52,139
MUS Workers Comp	-	-	2,842	2,978	2,842	2,978
Total expenses	3,285,017	3,547,313	253,221	273,758	3,538,238	3,821,071
Increase (decrease) in net assets before transfers	612,592	562,104	60,495	64,879	673,085	626,983
Transfers	29,871	34,802	(29,871)	(34,802)	-	-
Change in net assets	642,463	596,906	30,624	30,077	673,085	626,983
Net assets, beg of year (restated)	4,450,254	5,095,576	236,232	266,852	4,686,488	5,362,428
Net assets, end of year	\$5,092,717	\$5,692,482	\$266,856	\$296,929	\$5,359,573	\$5,989,411

### Governmental Activities

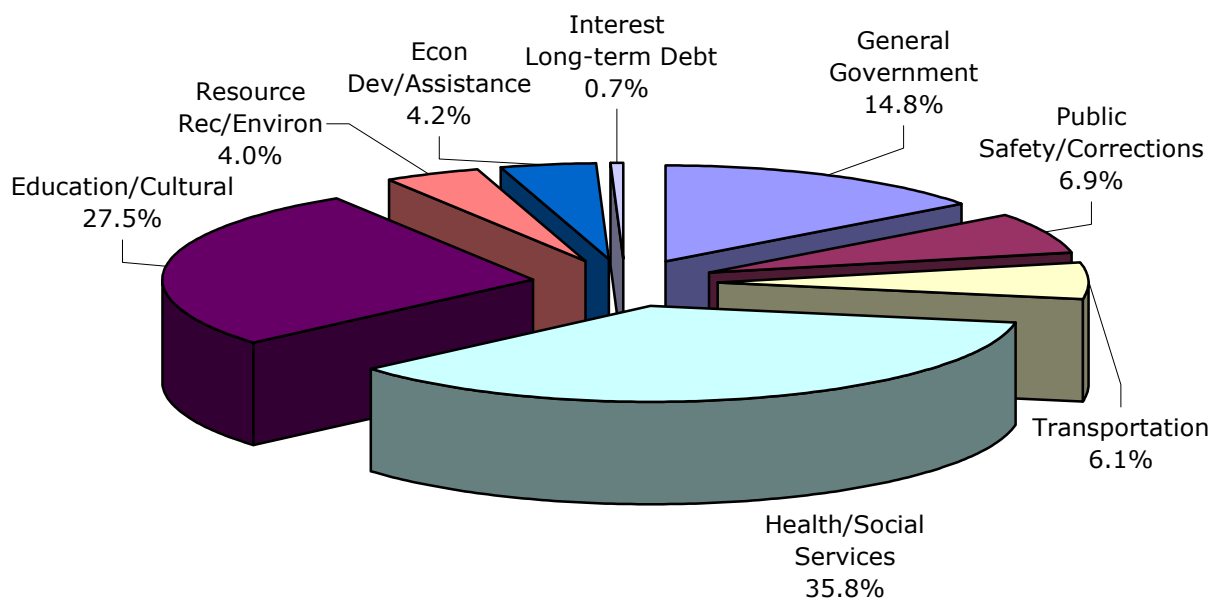
The following chart depicts revenues of the governmental activities for the fiscal year:

**Revenues - Governmental Activities  
Fiscal Year Ended June 30, 2006**



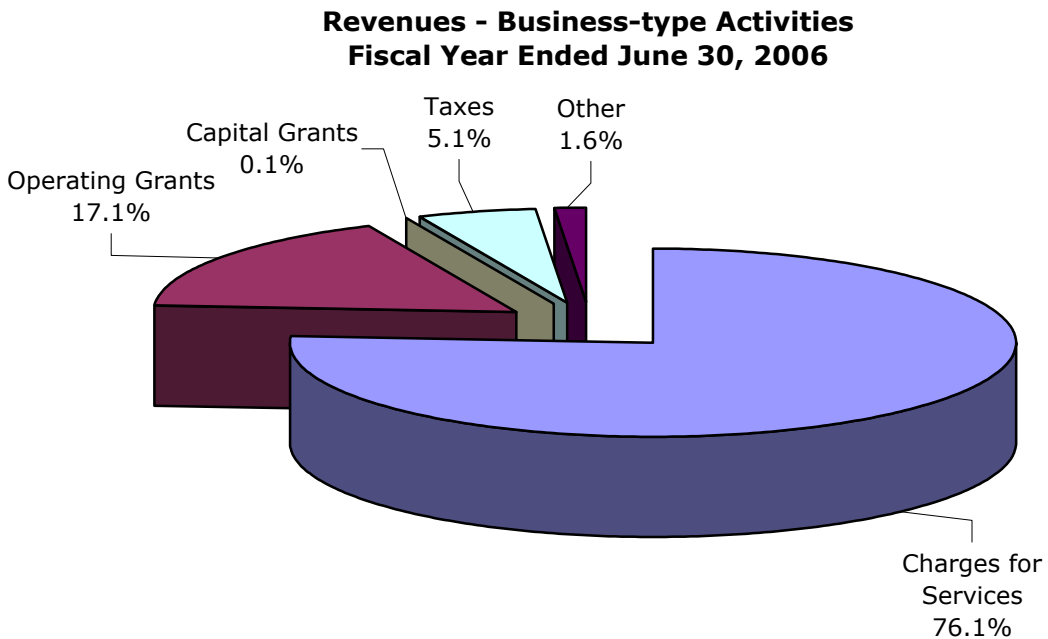
The following chart depicts expenses of the governmental activities for the fiscal year:

**Expenses - Governmental Activities  
Fiscal Year Ended June 30, 2006**

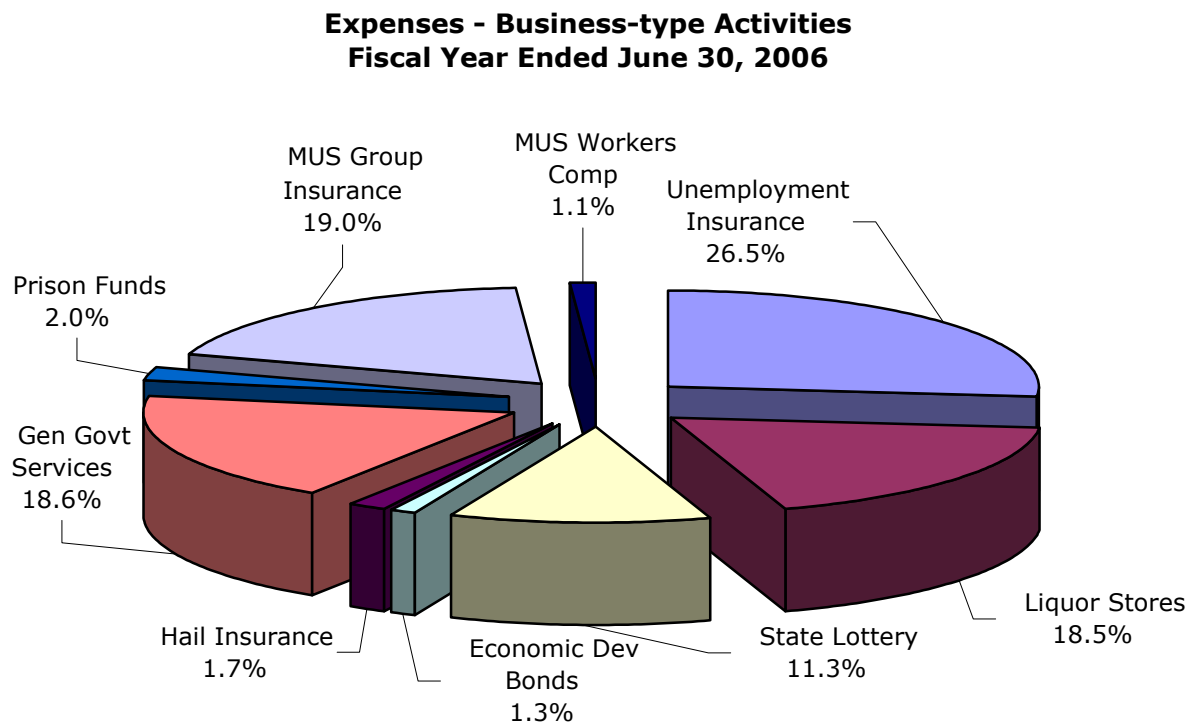


**Business-type Activities**

The following chart depicts revenues of the business-type activities for the fiscal year:



The following chart depicts expenses of the business-type activities for the fiscal year:





## FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS

As the State completed the year, its governmental funds reported fund balances of \$2.9 billion. Of this total amount, \$409.4 million (or 14.1%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved because it is legally segregated for a specific future use, or is not available for new spending, as it has already been dedicated for various commitments.

### General Fund

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$408.6 million. Unreserved fund balance increased during the fiscal year by \$118.9 million, primarily because of increased taxes (natural resource, individual income, corporate income, and property), and licenses and permits revenue.

General Fund Budgetary Highlights – The ending General Fund unreserved fund balance of \$409 million is \$181 million higher than the anticipated \$228 million; \$165 million of this increase is the result of revenue increases as discussed below.

Supplemental Development – General Fund supplementals approved by the Legislature included \$10.6 million for the Department of Corrections, \$5.06 million for wildfire suppression, \$2.8 million for the Department of Public Health and Human Services, and \$2.7 million for public defender costs. Additional guarantee account revenue available in the educational special revenue guarantee State Special Revenue sub-fund resulted in a reduction in General Fund expenditures by \$17 million.

Higher Revenues Than Anticipated – The General Fund experienced revenue growth significantly higher than expected in fiscal year 2006. General Fund revenues were up by \$182.8 million (or 12.5%). This represents a \$98.5 million (or 6.4%) increase over the revenue projections. The increase was primarily due to the individual and corporate income tax revenue increase of \$63.1 and \$55.7 million, respectively. Continued economic growth within Montana and the recovery of the investment market contributed to this income tax growth. Higher energy and metals prices led to increased oil, gas, and metals production within the State. This increased activity resulted in a \$30.9 million increase in natural resource tax revenues between fiscal years 2005 and 2006.

General Fund Expenditures – General Fund expenditures increased by \$214 million (or 16.1%) in 2006. This increase was primarily in General Government with a \$125 million contribution to the retirement funds resulting from the special session. Other major increases resulting from the special session and the supplemental process were in the following functions: Education/Cultural, \$43.5 million; Health and Social Services, \$30.4 million; and Corrections, \$16 million.

### State Special Revenue Fund

At the end of the current fiscal year, the fund balance of the State Special Revenue Fund was \$936.8 million. Fund balance increased during the fiscal year by \$29.5 million (or 3.2%).

In the State Special Revenue Fund, natural resource taxes increased by \$40.1 million (or 47.4%), other tax revenues by \$27.7 million (or 51.2%) as discussed in Note 1, fuel taxes by \$21.4 million (or 11.2%), and licenses and permits by \$13.1 million (or 11.2%). These increased revenues were offset by a significant decrease in investment income of \$12.1 million (or -44%).

Within the State Special Revenue Fund, expenditures increased \$42.8 million in the General Government function. This primarily was due to increased oil production tax distributions of \$31.3 million to the counties. The Education/Cultural functional expenditures increased by \$14.4 million, primarily as a result of an increase in land trust (natural resource tax) distributions to the State's K-12 schools of \$11.1 million. Department of Transportation highway expenditures increased by \$68.5 million as the result of increased materials costs and internal funding adjustments.

### Federal Special Revenue Fund

Fund balance in the Federal Special Revenue Fund decreased by less than 1%.

Overall revenues or expenditures did not increase significantly in the Federal Special Revenue Fund during fiscal year 2006. Significant changes within the functional categories were caused by (1) Transportation - decreased federal highway construction expenditures of \$31.8 million; (2) Public Safety/Corrections - decreased Disaster and Emergency Services funding to the State of \$5.3 million; (3) Health and Social Services - increased Medicaid Federal Medical Assistance Percentages (FMAPs) reimbursement of \$32.7 million, increased Low-Income Energy Assistance Program

administration of \$4.4 million, increased Child Health Insurance Program of \$3.9 million, and increased Food Stamp benefits of \$3 million.

#### **Coal Severance Tax Permanent Fund**

Reserved fund balance in the Coal Severance Tax Permanent Fund decreased by \$6.4 million (or .9%). This was primarily caused by decreases in natural resource taxes of \$3.2 million (or -16%) and investment income of \$34.2 million (or -71%). This was caused by decreases in the taxable valuation on the coal produced in the State and the valuation of the investments held by the fund.

#### **Land Grant Permanent Fund**

Reserved fund balance in the Land Grant Permanent Fund decreased by \$18.1 million (or 4.1%). This was caused by a decline in investment income of \$31.6 million (or 92.1%) due to the fund's lower investment valuation. Rentals and leases and royalties income increased by \$19.7 million (or 46.5%). This increase corresponds to higher natural resource production within the State during 2006 as the result of continued high gas, oil, and metals prices.

#### **Unemployment Insurance Enterprise Fund**

Net assets restricted for unemployment compensation increased by \$24.6 million (or 11.9%). Unemployment premium collections increased by \$3.9 million (or 5.3%). Unemployment benefits paid decreased by \$1.3 million. Both of these factors contributed to the increase in net assets, and are reflective of Montana's continued strong economy during 2006.

#### **Economic Development Bonds Enterprise Fund**

Net assets did not change significantly in this fund during 2006. Operating activity within this fund also did not change significantly during the year.

#### **General Governmental Functions**

Revenue sources for general governmental functions, which include the general, special revenue, debt service, capital projects, and permanent funds, increased 6.5% from fiscal year 2005 to fiscal year 2006. Revenues from various sources for fiscal year 2006, and the amount and percentage of increases and decreases in relation to prior year revenues are shown in the following table (amounts in thousands):

Revenue Source	Amount	2006 Percent of Total	Increase (Decrease) from 2005	Percent Increase (Decrease)
Licenses/permits	\$ 259,073	6.3%	\$ 13,829	5.6
Taxes	1,880,838	45.8	252,980	15.5
Chg srv/fines/forfeits/settle	162,520	4.0	17,285	11.9
Investment earnings	62,977	1.5	(80,960)	(56.2)
Securities lending income	7,511	0.2	2,342	45.3
Sales doc/merch/property	21,412	0.5	(1,243)	(5.5)
Rentals/leases/royalties	63,318	1.5	19,595	44.8
Contributions/premiums	8,785	0.2	1,041	13.4
Grants/contracts/donations	25,987	0.6	(1,997)	(7.1)
Federal	1,530,795	37.2	27,856	1.9
Federal indir cost rcv	81,922	2.0	872	1.1
Other revenues	4,693	0.2	353	8.1
Total revenues	<u>\$4,109,831</u>	<u>100.0%</u>	<u>\$251,953</u>	<u>6.5%</u>

Total expenditures for all governmental functions increased 11% from fiscal year 2005 to fiscal year 2006. Expenditures by function for fiscal year 2006, and the amount and percentage of increases or decreases in relation to the previous year amounts are depicted in the table below:

<b>Expenditure Function</b>	<b>Amount (in thousands)</b>	<b>2006 Percent of Total</b>	<b>Increase (Decrease) from 2005</b>	<b>Percent Increase (Decrease)</b>
General government	\$ 466,886	11.6%	\$173,078	58.9%
Public safety/corrections	254,381	6.3	15,452	6.5
Transportation	559,695	13.9	36,673	7.0
Health/social services	1,274,947	31.7	88,485	7.5
Education/cultural	976,446	24.3	71,296	7.9
Resource/recreation/environment	204,413	5.1	(2,490)	(1.2)
Economic development/assistance	151,020	3.8	4,714	3.2
Securities lending	7,663	0.2	2,758	56.2
Debt service	53,291	1.3	11,917	28.8
Capital outlay	69,505	1.8	(1,346)	(1.9)
Total expenditures	<u>\$4,018,247</u>	<u>100.0%</u>	<u>\$400,537</u>	<u>11.1%</u>

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$5 billion, net of accumulated depreciation of \$1.7 billion, leaving a net book value of \$3.3 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the State's investment in capital assets for the current fiscal year was approximately 17.9% in terms of net book value. Most of the year's capital expenditures were for construction or reconstruction of roads and bridges. Additional information on the State's capital assets can be found in Note 5 of the notes to the financial statements.

#### Debt Administration

Montana receives excellent bond ratings from both Moody's Investor Service (Aa3) and Standard and Poor's Corporation (AA-). State debt may be authorized either by a two-thirds vote of the members of each house of the Legislature or by a favorable vote of a majority of the State's electors voting thereon. There is no constitutional limit on the amount of debt that may be incurred by the State. The Montana Constitution does, however, prohibit the incurring of debt to cover deficits caused by appropriations exceeding anticipated revenue.

The State of Montana's general obligation debt increased from \$213.2 million at June 30, 2005, to \$230.1 million at June 30, 2006.

The ratio of general obligation debt to personal income and the amount of general obligation debt per capita are:

	<b>Amount (in thousands)</b>	<b>Percentage of Personal Income (1)</b>	<b>State Debt Per Capita (2)</b>
General obligation debt	\$230,065	0.85%	\$244.69

(1) Personal income is for calendar year 2005.

(2) Based on estimated 2006 Montana population.

More detailed information regarding the State's long-term obligations is presented in Note 11 to the financial statements.

### **ECONOMIC CONDITION AND OUTLOOK**

The unemployment rate for the State of Montana was 3.5% in the second quarter of 2006, which is a significant improvement from the rate of 4.4% during the second quarter of 2005. This compares favorably with the nation's average unemployment rate of 4.6% during the same time period.

The 59<sup>th</sup> Legislative Session adjourned on April 21, 2005, with a projected General Fund balance for the 2007 biennium of \$76.0 million. During fiscal year 2006, economic conditions continued to improve with the General Fund balance, as of June 30, 2006, ending at the \$408.9 million level.

Four of the State's retirement systems are not actuarially sound and have an unfunded actuarially accrued liability as of June 30, 2006. The actuarial condition of these plans is fully disclosed and reported as required by Generally Accepted Accounting Principles (GAAP), and explained in greater detail in Notes 6 and 18 of the financial statements. The unfunded actuarial liability is long-term in nature and does not translate into an inability of these plans to meet their current obligations in the near future. The State is very aware of this situation and is taking steps to address it.

In addition, the Sheriffs Retirement System is underfunded. This is fully disclosed and reported as required by GAAP, and explained in greater detail in Notes 6 and 18 of the financial statements. This does not translate into an inability of the plan to meet current obligations.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the State of Montana's finances for all of Montana's citizens, taxpayers, customers, investors, and creditors. The financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the State of Montana, Administrative Financial Services Division, Room 255 Mitchell Building, Capitol Complex, Helena, MT 59620.

## **BASIC FINANCIAL STATEMENTS**

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**STATEMENT OF NET ASSETS**

JUNE 30, 2006

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash/cash equivalents (Note 3)	\$ 1,096,137	\$ 302,388	\$ 1,398,525	\$ 225,030
Receivables (net)	299,478	31,161	330,639	76,881
Due from primary government	-	-	-	4,255
Due from other governments	130,384	264	130,648	21,288
Due from component units	1,542	3,570	5,112	1,028
Internal balances	(7,522)	7,522	-	-
Inventories	30,623	7,756	38,379	4,489
Advances to component units	8,802	5,215	14,017	-
Long-term loans/notes receivable	243,708	38,468	282,176	737,870
Equity in pooled investments (Note 3)	1,303,089	-	1,303,089	21,171
Investments (Note 3)	353,027	9,318	362,345	1,324,285
Securities lending collateral (Note 3)	90,178	1,304	91,482	149,779
Deferred charges	3,786	1,318	5,104	9,420
Capital assets (net) (Note 5)	3,240,577	9,110	3,249,687	517,134
Other assets	9,388	2,025	11,413	26,062
Total assets	6,803,197	419,419	7,222,616	3,118,692
LIABILITIES				
Accounts payable	403,930	7,917	411,847	65,739
Lottery prizes payable	-	2,807	2,807	-
Due to primary government	-	-	-	5,112
Due to other governments	6,133	406	6,539	-
Due to component units	4,255	-	4,255	1,028
Advances from primary government	-	-	-	14,017
Deferred revenue	30,878	6,941	37,819	22,410
Amounts held in custody for others	35,640	86	35,726	28,434
Securities lending liability (Note 3)	90,178	1,304	91,482	149,779
Other liabilities	723	256	979	9,840
Short-term debt (Note 11)	-	83,620	83,620	-
Long-term liabilities (Note 11):				
Due within one year	87,964	9,387	97,351	180,073
Due in more than one year	451,014	9,766	460,780	1,650,436
Total liabilities	1,110,715	122,490	1,233,205	2,126,868

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	\$ 2,842,708	\$ 8,703	\$ 2,851,411	\$ 295,410
Restricted for:				
Transportation	40,899	-	40,899	-
Fish, wildlife, and parks	71,610	-	71,610	-
Federal grants	26,686	-	26,686	-
Debt service/construction	8,471	-	8,471	33,595
Unemployment compensation	-	231,715	231,715	-
Funds held as permanent investments:				
Nonexpendable	1,373,924	-	1,373,924	192,868
Expendable	3,604	-	3,604	-
Housing authority	-	-	-	139,944
Resource/environment	552,687	-	552,687	-
Other purposes	124,711	37,972	162,683	100,232
Unrestricted	647,182	18,539	665,721	229,775
Total net assets	\$ 5,692,482	\$ 296,929	\$ 5,989,411	\$ 991,824

*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF ACTIVITIES**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Primary government:					
Governmental activities:					
General government	\$ 525,981	\$ 59,166	\$ 53,538	\$ 4,918	\$ (408,359)
Public safety/corrections	245,810	150,787	60,752	-	(34,271)
Transportation	216,942	31,766	35,657	289,785	140,266
Health/social services	1,270,056	30,022	894,787	-	(345,247)
Education/cultural	976,046	107,096	160,526	1,022	(707,402)
Resource/recreation/environment	142,460	77,064	104,298	8,956	47,858
Economic development/assistance	150,449	31,866	61,551	664	(56,368)
Interest on long-term debt	19,569	-	-	-	(19,569)
Total governmental activities	3,547,313	487,767	1,371,109	305,345	(1,383,092)
Business-type activities:					
Unemployment Insurance	72,661	76,754	17,529	-	21,622
Liquor Stores	50,514	58,975	-	-	8,461
State Lottery	31,020	39,923	-	-	8,903
Economic Development Bonds	3,441	7	3,620	-	186
Hail Insurance	4,632	3,057	363	-	(1,212)
General Government Services	51,017	15,589	36,060	378	1,010
Prison Funds	5,356	5,717	-	-	361
MUS Group Insurance	52,139	54,164	410	-	2,435
MUS Workers Compensation	2,978	3,543	69	-	634
Total business-type activities	273,758	257,729	58,051	378	42,400
Total primary government	\$ 3,821,071	\$ 745,496	\$ 1,429,160	\$ 305,723	\$ (1,340,692)
Component units:					
Housing Authority	\$ 44,104	\$ 381	\$ 45,773	\$ -	\$ 2,050
Facility Finance Authority	323	444	105	-	226
State Compensation Insurance (New Fund)	240,157	211,953	-	-	(28,204)
State Compensation Insurance (Old Fund)	9,061	-	-	-	(9,061)
Montana Surplus Lines	678	683	-	-	5
Montana State University	394,589	164,664	156,437	5,323	(68,165)
University of Montana	307,395	137,033	109,869	3,064	(57,429)
Total component units	\$ 996,307	\$ 515,158	\$ 312,184	\$ 8,387	\$ (160,578)

The notes to the financial statements are an integral part of this statement.



	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,383,092)	\$ 42,400	\$ (1,340,692)	\$ (160,578)
General revenues:				
Taxes:				
Property	194,617	-	194,617	-
Fuel	212,276	-	212,276	-
Natural resource	260,382	-	260,382	-
Individual income	760,981	-	760,981	-
Corporate income	153,574	-	153,574	-
Other	289,978	17,317	307,295	(10)
Unrestricted grants and contributions	4,158	-	4,158	106
Settlements	28,248	-	28,248	-
Unrestricted investment earnings	36,188	1,016	37,204	45,030
Payment from State of Montana	-	-	-	151,484
Gain on sale of capital assets	53	-	53	-
Miscellaneous	4,741	4,146	8,887	1
Contributions to term and permanent endowments	-	-	-	12,153
Transfers	34,802	(34,802)	-	-
Total general revenues, contributions, and transfers	1,979,998	(12,323)	1,967,675	208,764
Change in net assets	596,906	30,077	626,983	48,186
Total net assets - July 1 - as previously reported	5,092,717	266,856	5,359,573	943,289
Prior period adjustments (Note 2)	2,859	(4)	2,855	349
Total net assets - July 1 - as restated	5,095,576	266,852	5,362,428	943,638
Total net assets - June 30	\$ 5,692,482	\$ 296,929	\$ 5,989,411	\$ 991,824

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## GOVERNMENTAL FUND FINANCIAL STATEMENTS

### **General Fund**

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

### **State Special Revenue Fund**

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

### **Federal Special Revenue Fund**

This fund accounts for activities funded from federal sources used in the operation of state government.

### **Coal Severance Tax Fund**

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

### **Land Grant Fund**

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

### **Nonmajor Funds**

Nonmajor governmental funds are presented, by fund type, beginning on page 126.

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT			NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT			
<b>ASSETS</b>								
Cash/cash equivalents (Note 3)	\$ 394,072	\$ 462,598	\$ 40,358	\$ 66,652	\$ 9,051	\$ 74,235	\$ 1,046,966	
Receivables (net) (Note 4)	182,261	82,298	11,243	8,410	5,468	5,069	294,749	
Interfund loans receivable (Note 12)	29,044	22,922	906	-	-	-	52,872	
Due from other governments	204	567	129,610	-	-	-	130,381	
Due from other funds (Note 12)	63,006	11,129	804	-	-	94	75,033	
Due from component units	225	732	103	78	-	-	1,138	
Inventories	4,563	23,823	-	-	-	-	28,386	
Equity in pooled investments (Note 3)	-	219,661	-	460,323	422,820	200,285	1,303,089	
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707	
Advances to other funds (Note 12)	69	14,369	-	33,477	-	3,110	51,025	
Advances to component units	-	-	-	8,802	-	-	8,802	
Investments (Note 3)	14,898	142,071	1,894	166,889	-	8,568	334,320	
Securities lending collateral (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601	
Other assets	2,038	6,364	361	-	-	-	8,763	
Total assets	\$ 690,523	\$ 1,235,176	\$ 185,785	\$ 767,673	\$ 457,554	\$ 332,121	\$ 3,668,832	
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable (Note 4)	153,417	114,757	98,195	-	5,344	1,955	373,668	
Interfund loans payable (Note 12)	-	6,729	39,235	-	-	1,361	47,325	
Due to other governments	105	1,030	4,998	-	-	-	6,133	
Due to other funds (Note 12)	6,960	46,772	3,771	6,244	3,621	2,009	69,377	
Due to component units	17,332	1,025	1,766	-	-	30	20,153	
Advances from other funds (Note 12)	-	48,326	1,752	-	-	12,701	62,779	
Deferred revenue	72,346	31,031	7,949	-	-	334	111,660	
Amounts held in custody for others	20,250	15,002	297	-	87	-	35,636	
Securities lending liability (Note 3)	-	33,269	267	23,042	20,215	12,808	89,601	
Other liabilities	-	294	-	-	-	-	294	
Total liabilities	270,410	298,235	158,230	29,286	29,267	31,198	816,626	
Fund balances:								
Reserved for:								
Encumbrances	6,037	10,912	843	-	-	7	17,799	
Inventories	4,563	23,823	-	-	-	-	28,386	
Long-term loans/notes receivable	143	215,373	239	-	-	27,952	243,707	
Advances to other funds/component units	69	14,369	-	42,279	-	3,110	59,827	
Special revenue (Note 14)	-	724,161	28,042	-	-	-	752,203	
Debt service	-	-	-	-	-	4,809	4,809	
Trust principal (Note 14)	-	-	-	696,108	428,287	210,990	1,335,385	
Escheated property	721	-	-	-	-	-	721	
Unreserved, designated, reported in nonmajor (Note 1):								
Debt service funds	-	-	-	-	-	7,420	7,420	
Unreserved, undesignated	408,580	(51,697)	(1,569)	-	-	-	355,314	
Unreserved, undesignated, reported in nonmajor:								
Debt service funds	-	-	-	-	-	(637)	(637)	
Capital projects funds	-	-	-	-	-	47,272	47,272	
Total fund balances	420,113	936,941	27,555	738,387	428,287	300,923	2,852,206	
Total liabilities and fund balances	\$ 690,523	\$ 1,235,176	\$ 185,785	\$ 767,673	\$ 457,554	\$ 332,121	\$ 3,668,832	

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2006

(amounts expressed in thousands)

Total fund balances for governmental funds	\$ 2,852,206
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.

Land	378,248	
Land improvements	20,364	
Buildings/improvements	382,320	
Equipment	78,221	
Infrastructure	3,417,984	
Other capital assets	155,088	
Construction in progress	312,296	
Intangible assets	15,311	
Less accumulated depreciation	<u>(1,607,758)</u>	
Total capital assets		3,152,074

Certain revenues are earned, but not available and therefore deferred in the funds.	81,796
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	113,160
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Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in governmental activities in the statement of net assets.	3,786
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest	(5,481)	
Lease/installment purchase payable	(1,721)	
Bonds/notes payable (net)	(428,538)	
Compensated absences payable	(74,248)	
Early retirement benefits payable	(49)	
Arbitrage rebate tax payable	(74)	
Other liabilities	<u>(429)</u>	
Total long-term liabilities		<u>(510,540)</u>

Net assets of governmental activities	<u>\$ 5,692,482</u>
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*The notes to the financial statements are an integral part of this statement.*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
 (amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
<b>REVENUES</b>							
Licenses/permits	\$ 128,716	\$ 129,769	\$ -	\$ -	\$ 176	\$ 412	\$ 259,073
Taxes:							
Natural resource	111,413	126,355	-	16,933	-	5,217	259,918
Individual income	767,352	-	-	-	-	-	767,352
Corporate income	153,646	-	-	-	-	-	153,646
Property	180,447	14,170	-	-	-	-	194,617
Fuel	-	212,261	-	-	-	13	212,274
Other (Note 1)	209,241	81,800	-	-	-	1,990	293,031
Charges for services/fines/forfeits/settlements	36,412	84,329	30,478	-	-	11,301	162,520
Investment earnings	19,627	15,449	1,019	13,919	2,724	10,239	62,977
Securities lending income	2,240	1,411	17	1,608	1,466	769	7,511
Sale of documents/merchandise/property	402	4,141	1	-	14,068	2,800	21,412
Rentals/leases/royalties	39	966	-	-	62,153	160	63,318
Contributions/premiums	7	8,778	-	-	-	-	8,785
Grants/contracts/donations	3,286	21,679	899	-	33	90	25,987
Federal	29,103	11,575	1,490,117	-	-	-	1,530,795
Federal indirect cost recoveries	95	31,441	50,386	-	-	-	81,922
Other revenues	1,247	3,231	276	-	-	(61)	4,693
Total revenues	1,643,273	747,355	1,573,193	32,460	80,620	32,930	4,109,831
<b>EXPENDITURES</b>							
Current:							
General government	314,223	138,031	14,632	-	-	-	466,886
Public safety/corrections	157,976	47,393	45,041	-	-	3,971	254,381
Transportation	284	280,748	278,663	-	-	-	559,695
Health/social services	310,939	79,643	884,365	-	-	-	1,274,947
Education/cultural	697,365	92,865	182,439	-	3,767	10	976,446
Resource/recreation/environment	27,661	123,015	53,733	-	-	4	204,413
Economic development/assistance	26,655	65,187	59,178	-	-	-	151,020
Debt service:							
Principal retirement	710	396	251	-	-	31,189	32,546
Interest/fiscal charges	154	2,026	42	-	-	18,523	20,745
Capital outlay	2,339	29,570	26,016	-	-	11,580	69,505
Securities lending	2,197	1,676	17	1,580	1,440	753	7,663
Total expenditures	1,540,503	860,550	1,544,377	1,580	5,207	66,030	4,018,247
Excess of revenue over (under) expenditures	102,770	(113,195)	28,816	30,880	75,413	(33,100)	91,584
<b>OTHER FINANCING SOURCES (USES)</b>							
Bonds issued	-	5,700	-	-	-	31,350	37,050
Bond premium	-	1,323	-	-	-	855	2,178
Inception of lease/installment contract	628	70	178	-	-	-	876
Insurance proceeds	-	327	-	-	-	-	327
General capital asset sale proceeds	44	95	24	-	-	1	164
Transfers in (Note 12)	67,655	155,480	1,845	3,406	-	63,744	292,130
Transfers out (Note 12)	(50,728)	(22,587)	(30,694)	(40,757)	(93,563)	(20,918)	(259,247)
Total other financing sources (uses)	17,599	140,408	(28,647)	(37,351)	(93,563)	75,032	73,478
Net change in fund balances	120,369	27,213	169	(6,471)	(18,150)	41,932	165,062
Fund balances - July 1 - as previously reported	299,793	907,377	27,390	744,858	446,434	258,984	2,684,836
Prior period adjustments (Note 2)	(2,008)	527	(4)	-	3	7	(1,475)
Fund balances - July 1 - as restated	297,785	907,904	27,386	744,858	446,437	258,991	2,683,361
Increase (decrease) in inventories	1,959	1,824	-	-	-	-	3,783
Fund balances - June 30	\$ 420,113	\$ 936,941	\$ 27,555	\$ 738,387	\$ 428,287	\$ 300,923	\$ 2,852,206

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
*(amounts expressed in thousands)*

Net change in fund balances - total governmental funds \$ 165,062

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	712,675	
Depreciation expense	(138,290)	
Excess of capital outlay over depreciation expense		574,385

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (158,530)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 3,667

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. 3,783

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (8,385)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 16,662

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences is as follows:

Bonds issued	(37,050)	
Bond premium	(2,178)	
Capital lease financing	(876)	
Principal retirement	32,546	
Issuance costs deferral	1,452	
Bond issuance costs amortization	(366)	
Bond discount amortization	(13)	
Bond premium amortization	1,399	
Total long-term debt proceeds/repayment		(5,086)



Some expenditures reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(233)	
Compensated absences	5,353	
Early retirement benefits	6	
Arbitrage rebate tax	21	
Other liabilities	201	
Total additional expenditures		5,348
Change in net assets of governmental activities		\$ 596,906

*The notes to the financial statements are an integral part of this statement.*

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## **PROPRIETARY FUND FINANCIAL STATEMENTS**

### **Unemployment Insurance**

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

### **Economic Development Bonds**

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

### **Nonmajor Funds**

Nonmajor enterprise funds are presented beginning on page 146.

### **Governmental Activities – Internal Service Funds**

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 168.

**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL
	ECONOMIC				ACTIVITIES --
	UNEMPLOYMENT	DEVELOPMENT			INTERNAL
	INSURANCE	BONDS	NONMAJOR	TOTAL	SERVICE
					FUNDS
<b>ASSETS</b>					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 229,404	\$ 11,242	\$ 61,742	\$ 302,388	\$ 49,172
Receivables (net) (Note 4)	2,516	9,305	19,301	31,122	4,650
Interfund loans receivable (Note 12)	-	-	4	4	309
Due from other governments	19	-	245	264	2
Due from other funds (Note 12)	-	4,184	239	4,423	6,072
Due from component units	50	1,720	1,844	3,614	484
Inventories	-	-	7,757	7,757	2,237
Short-term investments (Note 3)	-	-	-	-	-
Securities lending collateral (Note 3)	-	3	1,301	1,304	575
Other current assets	-	-	339	339	624
Total current assets	231,989	26,454	92,772	351,215	64,125
Noncurrent assets:					
Advances to other funds (Note 12)	-	16,131	75	16,206	-
Advances to component units	-	6,575	-	6,575	-
Long-term investments (Note 3)	-	6,117	3,201	9,318	18,706
Long-term notes/loans receivable	-	36,840	268	37,108	-
Deferred charges	-	1,299	18	1,317	-
Other long-term assets	-	-	1,686	1,686	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,301	7,301	3,645
Equipment	-	3	5,167	5,170	190,977
Infrastructure	-	-	884	884	-
Construction in progress	-	-	309	309	4,470
Intangible assets	-	-	413	413	769
Less accumulated depreciation	-	(3)	(8,114)	(8,117)	(111,687)
Total capital assets	-	-	9,103	9,103	88,505
Total noncurrent assets	-	66,962	14,351	81,313	107,211
Total assets	231,989	93,416	107,123	432,528	171,336

**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable (Note 4)	\$ 274	\$ 1,176	\$ 6,468	\$ 7,918	\$ 8,833
Lottery prizes payable	-	-	1,565	1,565	-
Interfund loans payable (Note 12)	-	-	258	258	5,602
Due to other governments	-	-	406	406	-
Due to other funds (Note 12)	-	4	12,849	12,853	3,298
Due to component units	-	-	-	-	52
Deferred revenue	-	-	6,940	6,940	1,014
Short-term debt (Note 11)	-	83,620	-	83,620	-
Lease/installment purchase payable (Note 10)	-	-	-	-	738
Bonds/notes payable - net (Note 11)	-	939	420	1,359	-
Amounts held in custody for others	-	-	86	86	3
Securities lending liability (Note 3)	-	3	1,301	1,304	575
Estimated insurance claims (Note 8)	-	-	7,387	7,387	12,666
Compensated absences payable (Note 11)	-	17	586	603	2,655
Arbitrage rebate tax payable	-	35	-	35	-
Other current liabilities (Note 11)	-	-	29	29	-
Total current liabilities	274	85,794	38,295	124,363	35,436
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,242	1,242	-
Advances from other funds (Note 12)	-	-	-	-	4,452
Bonds/notes payable - net (Note 11)	-	2,148	430	2,578	-
Estimated insurance claims (Note 8)	-	-	6,472	6,472	16,066
Compensated absences payable (Note 11)	-	25	597	622	2,222
Arbitrage rebate tax payable	-	94	-	94	-
Other long-term liabilities (Note 11)	-	-	227	227	-
Total noncurrent liabilities	-	2,267	8,968	11,235	22,740
Total liabilities	274	88,061	47,263	135,598	58,176
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	-	8,705	8,705	89,225
Restricted for:					
Unemployment Compensation	231,715	-	-	231,715	-
Other Purposes	-	2,922	35,051	37,973	-
Unrestricted	-	2,433	16,104	18,537	23,935
Total net assets	\$ 231,715	\$ 5,355	\$ 59,860	\$ 296,930	\$ 113,160

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
<b>Operating revenues:</b>					
Charges for services	\$ -	\$ 7	\$ 110,681	\$ 110,688	\$ 106,276
Investment earnings	10,296	570	2,182	13,048	2,016
Securities lending income	-	-	57	57	61
Financing income	-	3,050	-	3,050	-
Contributions/premiums	76,754	-	70,019	146,773	112,574
Grants/contracts/donations	7,233	-	35,679	42,912	-
Taxes	-	-	17,317	17,317	-
Other operating revenues	3,493	-	922	4,415	1,986
Total operating revenues	97,776	3,627	236,857	338,260	222,913
<b>Operating expenses:</b>					
Personal services	-	250	10,478	10,728	37,620
Contractual services	-	22	11,261	11,283	19,761
Supplies/materials	-	10	51,488	51,498	21,927
Benefits/claims	70,459	-	95,149	165,608	88,268
Depreciation	-	-	1,222	1,222	11,091
Amortization	-	-	248	248	776
Utilities/rent	-	41	924	965	10,800
Communications	-	6	1,049	1,055	9,153
Travel	-	3	224	227	430
Repair/maintenance	-	1	522	523	8,237
Grants	-	-	1,395	1,395	-
Lottery prize payments	-	-	20,728	20,728	-
Interest expense	-	3,065	46	3,111	374
Securities lending expense	-	-	57	57	60
Arbitrage rebate tax	-	4	-	4	-
Dividend expense	-	-	1,706	1,706	-
Other operating expenses	2,201	38	1,448	3,687	2,941
Total operating expenses	72,660	3,440	197,945	274,045	211,438
Operating income (loss)	25,116	187	38,912	64,215	11,475
<b>Nonoperating revenues (expenses):</b>					
Insurance proceeds	-	-	-	-	38
Gain (loss) on sale of capital assets	-	-	-	-	(811)
Federal indirect cost recoveries	-	-	-	-	4,292
Increase (decrease) value of livestock	-	-	284	284	-
Total nonoperating revenues (expenses)	-	-	284	284	3,519
Income (loss) before contributions and transfers	25,116	187	39,196	64,499	14,994
Capital contributions	-	-	385	385	-
Transfers in (Note 12)	-	-	78	78	2,330
Transfers out (Note 12)	(558)	-	(34,326)	(34,884)	(662)
Change in net assets	24,558	187	5,333	30,078	16,662
Total net assets - July 1 - as previously reported	207,157	5,168	54,531	266,856	95,301
Prior period adjustments (Note 2)	-	-	(4)	(4)	1,197
Total net assets - July 1 - as restated	207,157	5,168	54,527	266,852	96,498
Total net assets - June 30	\$ 231,715	\$ 5,355	\$ 59,860	\$ 296,930	\$ 113,160

The notes to the financial statements are an integral part of this statement.

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**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from sales and services	\$ 79,084	\$ 7	\$ 180,420	\$ 259,511	\$ 218,409
Payments to suppliers for goods and services	(5,396)	(108)	(100,233)	(105,737)	(71,755)
Payments to employees	-	(249)	(10,282)	(10,531)	(37,699)
Grant receipts	7,164	-	37,223	44,387	4,361
Grant payments	-	-	(1,395)	(1,395)	-
Cash payments for claims	(70,657)	-	(59,829)	(130,486)	(90,565)
Cash payments for prizes	-	-	(20,860)	(20,860)	-
Other operating revenues	5,338	-	1,055	6,393	1,650
Other operating payments	-	-	(1,706)	(1,706)	-
Net cash provided by (used for) operating activities	15,533	(350)	24,393	39,576	24,401
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Collection of taxes	-	-	17,312	17,312	-
Transfers to other funds	(558)	-	(30,610)	(31,168)	(662)
Transfers from other funds	-	-	61	61	2,330
Proceeds from interfund loans/advances	-	-	(25)	(25)	19,371
Payments of interfund loans/advances	-	-	(4)	(4)	(15,687)
Collection of principal and interest on loans	-	-	37	37	-
Payment of principal and interest on bonds and notes	-	(5,309)	(445)	(5,754)	(348)
Proceeds from issuance of bonds and notes	-	1,103	-	1,103	-
Net cash provided by (used for) noncapital financing activities	(558)	(4,206)	(13,674)	(18,438)	5,004
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from insurance	-	-	-	-	38
Acquisition of capital assets	-	-	740	740	(14,521)
Proceeds from sale of capital assets	-	-	(1)	(1)	802
Principal and interest payments on bonds and notes	-	-	-	-	(142)
Net cash used for capital and related financing activities	-	-	739	739	(13,823)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	-	(2,146)	(932)	(3,078)	(6,948)
Proceeds from sales or maturities of investments	-	1,794	961	2,755	1,117
Proceeds from securities lending transactions	-	-	52	52	(229)
Interest and dividends on investments	10,296	700	2,113	13,109	2,045
Payment of securities lending costs	-	-	(50)	(50)	229
Collections of principal and interest on loans	-	20,807	-	20,807	-
Cash payment for loans	-	(22,519)	-	(22,519)	-
Arbitrage rebate tax	-	11	-	11	-
Net cash provided by (used for) investing activities	10,296	(1,353)	2,144	11,087	(3,786)
Net increase (decrease) in cash and cash equivalents	25,271	(5,909)	13,602	32,964	11,796
Cash and cash equivalents, July 1	204,133	17,151	48,140	269,424	37,376
Cash and cash equivalents, June 30	\$ 229,404	\$ 11,242	\$ 61,742	\$ 302,388	\$ 49,172

The notes to the financial statements are an integral part of this statement.



	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL		
<b>Reconciliation of operating income to net cash provided by operating activities:</b>						
Operating income (loss)	\$ 25,116	\$ 186	\$ 38,912	\$ 64,214	\$	11,475
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>						
Depreciation	-	-	1,221	1,221		11,087
Amortization	-	-	248	248		774
Taxes	-	-	(17,317)	(17,317)		-
Interest expense	-	3,065	46	3,111		374
Securities lending expense	-	-	86	86		60
Investment Earnings	(10,296)	(570)	(2,182)	(13,048)		(2,014)
Securities lending income	-	-	(86)	(86)		(61)
Financing income	-	(3,050)	-	(3,050)		-
Federal indirect cost recoveries	-	-	-	-		4,291
Arbitrage rebate tax	-	4	-	4		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	916	-	(1,477)	(561)		(738)
Decr (incr) in due from other funds	(50)	-	(110)	(160)		(508)
Decr (incr) in due from component units	(19)	-	(1,129)	(1,148)		(29)
Decr (incr) in due from other governments	-	-	59	59		-
Decr (incr) in inventories	-	-	(3,671)	(3,671)		(154)
Decr (incr) in other assets	-	-	2,353	2,353		(87)
Incr (decr) in accounts payable	(69)	14	2,932	2,877		1,943
Incr (decr) in lottery prizes payable	-	-	113	113		-
Incr (decr) in due to other funds	(65)	1	(2,506)	(2,570)		791
Incr (decr) in due to component units	-	-	(1)	(1)		29
Incr (decr) in deferred revenue	-	-	3,715	3,715		49
Incr (decr) in amounts held in custody for others	-	-	(10)	(10)		(27)
Incr (decr) in compensated absences payable	-	-	56	56		415
Incr (decr) in estimated claims	-	-	3,141	3,141		(3,269)
Net cash provided by (used for) operating activities	\$ 15,533	\$ (350)	\$ 24,393	\$ 39,576	\$	24,401
<b>Schedule of noncash transactions:</b>						
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -	\$	738
Incr (decr) in fair value of investments	-	-	-	-		163
Total noncash transactions	\$ -	\$ -	\$ -	\$ -	\$	901

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## **FIDUCIARY FUND FINANCIAL STATEMENTS**

### **Pension (and Other Employee Benefit) Trust Funds**

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

### **Private-Purpose Trust Funds**

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

### **Investment Trust Fund**

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

### **Agency Funds**

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 186.

**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
 JUNE 30, 2006  
*(amounts expressed in thousands)*

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
<b>ASSETS</b>				
Cash/cash equivalents (Note 3)	\$ 189,448	\$ 2,597	\$ 655,715	\$ 5,835
Receivables (net):				
Accounts receivable	16,887	-	832	408
Interest	14,178	-	-	-
Due from primary government	15,953	-	-	-
Due from other PERB plans	418	-	-	-
Long-term loans/notes receivable	135	-	-	-
Total receivables	47,571	-	832	408
Investments at fair value:				
Equity in pooled investments (Note 3)	6,673,208	-	-	-
Other investments (Note 3)	375,862	-	-	-
Total investments	7,049,070	-	-	-
Securities lending collateral (Note 3)	133,607	29	10,741	2
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	152	-	-	-
Accumulated depreciation	(271)	-	-	-
Intangible assets	833	-	-	-
Total capital assets	907	-	-	-
Other assets	4	7,847	-	10,592
Total assets	7,420,607	10,473	667,288	16,837
<b>LIABILITIES</b>				
Accounts payable	802	3	832	667
Due to primary government	102	-	-	-
Due to other PERB plans	418	-	-	-
Due to component units	24	-	-	-
Advances from primary government	1,360	-	-	-
Deferred revenue	75	-	-	-
Amounts held in custody for others	-	-	800	16,168
Securities lending liability (Note 3)	133,607	29	10,741	2
Compensated absences payable	394	-	-	-
Total liabilities	136,782	32	12,373	16,837
<b>NET ASSETS</b>				
Held in trust for pension benefits and other purposes	\$ 7,283,825	\$ 10,441	\$ 654,915	\$ -

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**FIDUCIARY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
<b>ADDITIONS</b>			
Contributions/premiums:			
Employer	\$ 143,922	\$ -	\$ -
Employee	152,872	-	-
Other contributions	17,461	-	1,174,981
Net investment earnings:			
Investment earnings	593,481	68	23,951
Administrative investment expense	(10,337)	-	-
Securities lending income	10,143	1	419
Securities lending expense	(9,908)	(1)	(418)
Grants/contractions/donations	-	527	-
Charges for services	432	-	-
Other additions	272	2,798	-
Payment from State of Montana	125,000	-	-
Transfers in	233	-	-
Total additions	1,023,571	3,393	1,198,933
<b>DEDUCTIONS</b>			
Benefits	379,923	-	-
Refunds	19,806	-	-
Distributions	-	2,480	1,124,365
Administrative expenses:			
Personal services	2,447	-	-
Contractual services	2,409	-	-
Supplies/materials	89	-	-
Depreciation	5	-	-
Amortization	407	-	-
Utilities/rent	257	-	-
Communications	173	-	-
Travel	63	-	-
Repair/maintenance	56	-	-
Grants	-	8	-
Interest expense	58	-	-
Other operating expenses	389	-	-
Local assistance	11	-	-
Transfers to ORP	183	-	-
Transfers to PERS-DCRP	1,064	-	-
Total deductions	407,340	2,488	1,124,365
Change in net assets	616,231	905	74,568
Net assets - July 1 - as previously reported	6,667,193	9,602	580,347
Prior period adjustments (Note 2)	401	(66)	-
Net assets - July 1 - as restated	6,667,594	9,536	580,347
Net assets - June 30	\$ 7,283,825	\$ 10,441	\$ 654,915

The notes to the financial statements are an integral part of this statement.

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## **COMPONENT UNIT FINANCIAL STATEMENTS**

### **Housing Authority**

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

### **Facility Finance Authority**

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

### **State Compensation Insurance Fund (New and Old)**

This fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax.

### **Montana Surplus Lines**

Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within the Montana State Auditors' Office. The Association was reactivated in 1989 to operate the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies.

### **Montana State University and University of Montana**

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

**COMBINING STATEMENT OF NET ASSETS**
**COMPONENT UNITS**

JUNE 30, 2006

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
<b>ASSETS</b>				
Cash/cash equivalents (Note 3)	\$ 7,870	\$ 1,874	\$ 14,919	\$ 8,676
Receivables (net)	17,869	318	15,854	680
Due from primary government	7	-	31	-
Due from other governments	-	-	-	-
Due from component units	-	-	575	-
Inventories	-	-	-	-
Long-term loans/notes receivable	710,946	560	35	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	203,654	-	738,858	43,252
Securities lending collateral (Note 3)	42	30	132,439	14,894
Deferred charges	7,758	-	-	-
Capital assets (net) (Note 5)	55	-	6,601	-
Other assets	232	-	17,313	-
Total assets	948,433	2,782	926,625	67,502
<b>LIABILITIES</b>				
Accounts payable	3,959	10	18,557	198
Due to primary government	22	2	1,171	-
Due to component units	-	-	-	575
Advances from primary government	-	-	-	-
Deferred revenue	-	-	2,107	-
Amounts held in custody for others	-	-	22,119	-
Securities lending liability (Note 3)	42	30	132,439	14,894
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	11,011	11	125,258	12,909
Due in more than one year	793,400	19	467,390	60,827
Total liabilities	808,434	72	769,041	89,403
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	55	-	6,601	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	139,944	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	2,710	150,983	(21,901)
Total net assets	\$ 139,999	\$ 2,710	\$ 157,584	\$ (21,901)

The notes to the financial statements are an integral part of this statement.



MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL
\$	517	\$	98,208	\$	92,966	\$ 225,030
	120		18,120		23,920	76,881
	-		2,547		1,670	4,255
	-		13,484		7,804	21,288
	-		24		429	1,028
	-		2,729		1,760	4,489
	-		16,665		9,664	737,870
	-		14,358		6,813	21,171
	78		177,358		161,085	1,324,285
	-		1,538		836	149,779
	-		-		1,662	9,420
	-		257,256		253,222	517,134
	-		5,729		2,788	26,062
	715		608,016		564,619	3,118,692
	339		25,275		17,401	65,739
	-		3,101		816	5,112
	-		429		24	1,028
	-		8,551		5,466	14,017
	9		7,791		12,503	22,410
	-		4,024		2,291	28,434
	-		1,538		836	149,779
	-		3,785		6,055	9,840
	-		16,926		13,958	180,073
	-		160,574		168,226	1,650,436
	348		231,994		227,576	2,126,868
	-		164,232		124,522	295,410
	-		18,820		14,775	33,595
	-		84,435		108,433	192,868
	-		-		-	139,944
	275		43,444		56,513	100,232
	92		65,091		32,800	229,775
\$	367	\$	376,022	\$	337,043	\$ 991,824

**COMBINING STATEMENT OF ACTIVITIES**
**COMPONENT UNITS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)
<b>EXPENSES</b>	\$ 44,104	\$ 323	\$ 240,157	\$ 9,061
<b>PROGRAM REVENUES:</b>				
Charges for services	381	444	211,953	-
Operating grants and contributions	45,773	105	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	46,154	549	211,953	-
Net (expenses) program revenues	2,050	226	(28,204)	(9,061)
<b>GENERAL REVENUES:</b>				
Other taxes	-	-	-	(10)
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	17,114	2,751
Payment from State of Montana	-	-	-	-
Miscellaneous	1	-	-	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	17,114	2,741
Change in net assets	2,051	226	(11,090)	(6,320)
Total net assets - July 1 - as previously reported	137,960	2,484	168,674	(15,581)
Prior period adjustments (Note 2)	(12)	-	-	-
Total net assets - July 1 - as restated	137,948	2,484	168,674	(15,581)
Total net assets - June 30	\$ 139,999	\$ 2,710	\$ 157,584	\$ (21,901)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 678	\$ 394,589	\$ 307,395	\$ 996,307
683	164,664	137,033	515,158
-	156,437	109,869	312,184
-	5,323	3,064	8,387
683	326,424	249,966	835,729
5	(68,165)	(57,429)	(160,578)
-	-	-	(10)
-	106	-	106
1	8,147	17,017	45,030
-	87,957	63,527	151,484
-	-	-	1
-	5,553	6,600	12,153
1	101,763	87,144	208,764
6	33,598	29,715	48,186
-	342,424	307,328	943,289
361	-	-	349
361	342,424	307,328	943,638
\$ 367	\$ 376,022	\$ 337,043	\$ 991,824

## NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements for the State of Montana have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

**A. Reporting Entity**

For financial reporting purposes, the State of Montana has included all funds which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

**Discretely Presented Component Units**

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component unit columns of the combined financial statements include the financial data of these entities:

Housing Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$1.5 billion. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The authority is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 301 South Park, Room 204, PO Box 200528, Helena, MT 59620-0545.

Facilities Finance Authority – This authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing as possible. The board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued every two years by the State's Legislative Audit Division. The report is issued under separate cover and available at 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200506, Helena, MT 59620-0506.

State Compensation Insurance Fund (New and Old) – The fund is a nonprofit, independent public corporation governed by a board appointed by the Governor. The fund provides workers compensation insurance. The fund consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. Administrative operations and budgets are reviewed by the Governor and the Legislature. The fund is audited annually by the State's Legislative Audit Division. The report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

Montana Surplus Lines – Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within Montana State Auditors' Office. The Association was reactivated in 1989 to operate the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies. The association was audited by Galusha, Higgins & Galusha, PC. The report is issued under separate cover at 840 Helena Avenue, Helena, MT 59601.

Universities and Colleges – The State Board of Regents has responsibility for the following institutions: The University of Montana - Missoula and the units under it including Montana Tech of the University of Montana, The University of Montana - Western and The University of Montana - Helena College of Technology; and Montana State University - Bozeman and the units under it including Montana State

University - Billings, Montana State University - Northern, and the Montana State University College of Technology - Great Falls. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. The universities are audited annually by the State's Legislative Audit Division. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 46 North Last Chance Gulch, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation; and (3) the Student Assistance Foundation of Montana, a private non-profit corporation. Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund and the State Special Revenue Fund.

#### **Fiduciary Fund Component Units**

Teachers Retirement System (Pension Trust Fund) – This retirement plan is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump-sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the fund. The plan is funded from employer and employee contributions and investment earnings. The board is a discretely presented component unit. The plan is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

Public Employees Retirement Board (Pension and Other Employee Benefit Trust Funds) – The board, appointed by the Governor, administers ten separate retirement plans for the purpose of providing retirement, disability, death, and lump-sum payments to each plan member. These legally separate plans include the Public Employees Defined Benefit Retirement Plan, Public Employees Defined Contribution Retirement Plan, the associated education funds, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. The board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) includes the Public Employees Defined Benefit Retirement Plan and the Public Employees Defined Contribution Retirement Plan, and is funded from employer and employee contributions, investment earnings and contributions from state, county, and local governments. The PERS also accounts for the administrative costs, paid from investment earnings, of the plan. The Municipal Police Officers Retirement System is funded from member, state, and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member, state, and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member and investment earnings; there is one employer, Great Falls Transit, that contributes to the program.

The board is a discretely presented component unit responsible for the ten separate public employee retirement plans including the Deferred Compensation Program. These are reported as pension and other employee benefit trust funds. The board is audited annually by the State's Legislative Audit Division. Its report is issued under separate cover and is available at 100 North Park, Suite 200, PO Box 200131, Helena, MT 59620-0131.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the State of Montana and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State of Montana is reported separately from certain legally separate component units for which the State is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by

program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expense reported for the individual functions and activities. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Fiduciary fund statements are only reported on the fund financial statements. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

#### Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary fund, and fiduciary fund (except for agency fund) financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting. Revenues are reported when earned; expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all of the eligibility requirements imposed by the provider are met.

#### Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

The major revenue sources considered susceptible to accrual are: licenses and permits, natural resource taxes, individual income taxes, corporate income taxes, property taxes, fuel taxes, and certain federal revenues (reimbursable grants and U.S. mineral royalties). All other revenue is considered to be measurable and available when the cash is received.

#### Fund Financial Statements

The State uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The financial activities of the State of Montana are classified into fund categories as described below:

#### Governmental Funds

General Fund – To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds – To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

Debt Service Funds – To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds – To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds – To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

#### Proprietary Funds

Enterprise Funds – To account for operations: (1) financed and operated similar to private business enterprises, where the intent of the Legislature is to finance or recover costs primarily through user charges; (2) where the Legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate; (3) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; (4) when laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The primary focus of fee revenues charged by enterprise funds is users outside of the primary government.

Internal Service Funds – To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis.

The State of Montana reports two employee group benefits funds. The MUS Group Insurance Fund primarily charges its fees to Montana State University and the University of Montana. The universities are reported as discretely presented component units, which the State considers to be external users, and as such, reports the MUS Group Insurance Fund as an enterprise fund. The Employee Group Benefits Fund charges its fees to funds of the primary government, and as such, is reported as an internal service fund.

#### **Fiduciary Funds**

To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs.

Pension (and Other Employee Benefit) Trust Funds – These funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans, defined contribution plans, other retirement plans such as firefighters, police officers, teachers etc, and other post employment benefit plans. Plan members receive retirement, disability, death, and lump-sum payments from the fund. A list of the plans is included on page 185.

Private-Purpose Trust Funds – These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments. Examples include the State's escheated property fund, unliquidated security bonds held on deposit from self-insured employers, environmental reclamation bonds held in trust, and others.

Investment Trust Fund – This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds – Account for assets held by the State as an agent for individuals, private organizations, and other governments. For example, various agencies including State Auditor, Fish, Wildlife and Parks, and the Department of Natural Resources and Conservation hold deposits pending compliance with performance agreements. Other examples include monies belonging to state institution residents and child support payments from parents.

#### **Major Governmental Funds**

The General Fund is the State's primary operating fund, as defined above.

The State Special Revenue Fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

The Federal Special Revenue Fund accounts for all activities funded from federal sources used in the operation of state government.

The Coal Tax Trust Permanent Fund, created by Article IX, Section 5 of the Montana State Constitution, receives 50% of all coal tax collections. The principal in this fund can be expended only upon affirmative vote of three-fourths of each house of the Legislature.

The Land Grant Permanent Fund accounts for lands granted to the State for support of public schools and state institutions.

#### **Major Enterprise Funds**

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed by both the government-wide and proprietary fund financial statements to the extent they do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds. The State has elected not to follow subsequent private sector guidance.

As a general rule, material interfund revenues have been eliminated from the government-wide financial statements. These have not been eliminated where their elimination would distort the direct costs and program revenues of the functions involved.

The State does not allocate indirect expenses to functions in the Statement of Activities.

#### **D. Proprietary Activity Accounting and Financial Reporting**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating.

#### **E. Cash/Cash Equivalents**

For all funds, cash and cash equivalents consist of amounts deposited in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool (STIP), cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. (See Note 3).

#### **F. Receivables**

This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding, and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. Further detail relating to receivables is provided in Note 4.

#### **G. Inventories**

Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reservation of fund balance, indicating they do not constitute available expendable resources.

Proprietary and fiduciary funds report using the "consumption method," meaning inventories are expensed as used.

#### **H. Restricted Assets**

Certain investments of the Economic Development Bonds Enterprise Fund are classified as restricted assets on the Statement of Net Assets for Proprietary Funds because their use is limited by applicable bond indenture agreements.

#### **I. Equity in Pooled Investments**

The Montana Board of Investments manages the State's Unified Investment Program, which includes several internal investment pools. Participation in the pools is restricted to permanent funds, private-purpose trust funds, investment trust funds, pension trust funds, Montana University System Units, and specific funds established within the State Special Revenue Fund. The participant investments in the pools are reported at fair value in the assets within the individual funds (See Note 3 on Cash/Cash Equivalents and Investments).

#### **J. Investments**

In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero-coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the Balance Sheet or Statement of Net Assets. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 3 on Cash/Cash Equivalents and Investments).

#### **K. Capital Assets**

Capital asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure capital assets are capitalized and reported in the government-wide financial statements. Infrastructure assets of proprietary funds are capitalized on the fund financial statements. Interest incurred during the construction of capital assets for proprietary funds and higher education units is capitalized. The State has chosen to use the depreciation approach for infrastructure assets and is reporting accumulated depreciation in the Statement of Net Assets and depreciation expense in the Statement of Activities for these assets.

Capital assets in proprietary, private-purpose trust, and pension trust funds are accounted for within their respective funds and are depreciated. Depreciation is on



a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 7 to 20 years for building improvements, 3 to 10 years for equipment, and 10 to 50 years for infrastructure. State agencies are also required to extend or shorten the useful lives of capital assets to reflect their actual experience or industry standards when appropriate.

The capitalization limit for buildings and building/land improvements is \$25,000. The capitalization threshold for infrastructure is \$500,000. Agencies are allowed to capitalize additions to collections and land acquisitions at any cost. The capitalization limit for other capital assets is set at \$5,000. Purchases under these thresholds are recorded as expenditures/expenses in the current period.

#### **L. Deferred Revenue**

Deferred revenue in the government-wide, proprietary fund, and fiduciary fund financial statements relates to unearned revenue. A liability for unearned revenue is recorded when assets are recognized in connection with a transaction prior to the earnings process being completed.

Deferred revenue in the governmental fund financial statements relates to both unearned revenue (as discussed above) and unavailable revenue. A liability for unavailable revenue is recorded when assets are recognized in connection with a transaction, but those assets are not considered available to finance expenditures of the current fiscal period.

#### **M. Long-term Obligations**

Long-term obligations expected to be financed from governmental funds are reported in the government-wide financial statements. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund in the fund financial statements. The remaining portion of such obligations is reported in the government-wide financial statements.

Long-term liabilities expected to be financed from proprietary and fiduciary fund operations are accounted for in those funds.

#### **N. Capital Leases**

A capital lease is generally defined by GASB Statement 13, Accounting for Leases, as one which transfers benefits and risks of ownership to the lessee. At the inception of a capital lease, in the government-wide, proprietary fund, and fiduciary fund financial statements, a capital asset and a capital lease liability are recorded at the present value of the future minimum lease payments. In the governmental fund financial statements, because the modified accrual basis of accounting is used, no asset or liability is recorded related to assets under capital leases. Rather, in the governmental fund financial statements, at the inception of a capital lease, a capital outlay expenditure and an other financing source (inception of lease/installment contract) are recorded at the net present value of the minimum lease payments.

#### **O. Bond Discounts/Premiums/Issuance Costs**

Bond premiums and discounts, as well as issuance costs, are recognized in the current period for governmental funds in the fund financial statements. Bond proceeds and bond premiums are reported as an other financing source, and bond discounts are reported as an other financing use. Issuance costs are reported as debt service expenditures whether or not they are withheld from the bond proceeds. In proprietary fund types and in governmental funds as presented in the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount, while issuance costs are reported as deferred charges.

#### **P. Compensated Absences**

Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. Based on a review, the adjusted ending balance of the pool for June 30, 2005, was 1,588 hours. For fiscal year 2006, 1,956 hours were contributed to the sick leave pool and 964 hours were withdrawn, leaving a balance of 2,580 hours in the pool. No liability is reported in the accompanying financial statements because these hours are

nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave for proprietary and fiduciary funds is recorded as an expense and liability of those funds in the fund financial statements. For governmental funds, the liability is not expected to be liquidated with expendable financial resources. The expenditure and liability for the governmental funds is reported only in the government-wide financial statements. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

#### Q. Advances to Other Funds

Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account in the fund financial statements, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund as advances from other funds.

#### R. Fund Balance/Net Assets

The State reserves those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. The debt service funds designated fund balances represent management's desire to maintain fund balance for future debt service payments.

#### T. Other Taxes

On the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds, the revenue category "Other Taxes" in the General, State Special Revenue, and Nonmajor Governmental funds consists of the following taxes (in thousands):

	General Fund	State Special Revenue Fund	Nonmajor Governmental Funds	Total
Accommodations	\$ 10,548	\$14,552	\$ -	\$ 25,100
Agriculture sales	-	3,540	-	3,540
Cigarette/tobacco	38,894	48,456	1,990	89,340
Fire protection	-	2,444	-	2,444
Insurance premium	58,596	-	-	58,596
Livestock	-	3,367	-	3,367
Other taxes	22,914	6,355	-	29,269
Public Service Commission	-	3,068	-	3,068
Telephone license	20,860	-	-	20,860
Video gaming	57,429	18	-	57,447
Total other taxes	\$209,241	\$81,800	\$1,990	\$293,031

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide Statement of Net Assets reported restricted net assets (in thousands) of \$2,472,279 of which \$484,411 is restricted by enabling legislation.

#### S. Property Taxes

Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due.

Personal property tax levies are set each August, and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

**NOTE 2. OTHER ACCOUNTING ISSUES****A. New Accounting Guidance Implemented**

For the year ended June 30, 2006, the State implemented GASB Statement 43, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The State did not have any impairment of capital assets to disclose for fiscal year 2006.

GASB Statement 44, Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1) was also implemented for the year ended June 30, 2006.

In addition, for the year ended June 30, 2006, the State implemented GASB Statement 47, Accounting for Termination Benefits, which provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. During fiscal year 2006, the State did not recognize a liability and expense for voluntary termination benefits (i.e., early-retirement incentives) or involuntary termination benefits such as severance benefits for its employees.

**B. Prior Period Adjustments**

Prior period adjustments reported in the accompanying financial statements relate to corrections of errors from prior periods. The most significant of these adjustments affected the governmental activities column in the Statement of Activities, and related to various capital asset corrections.

**NOTE 3. CASH/CASH EQUIVALENTS AND INVESTMENTS**

This note details the following asset classifications (in thousands):

Cash/cash equivalents	\$2,477,151
Equity in pooled investments	\$7,997,467
Investments	\$2,062,491

Carrying amounts for the bank balance for Cash Deposits and fair values for the State's cash equivalents and investments are presented in Tables 1 through 4.

**A. General**

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short-term Investment Pool, cash held by trustees, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short-term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account, there is the Short-term Investment Pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short-term, highly liquid investments, the individual fund investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7. By meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their interest earnings within their funds are required to invest in STIP. Local government participation in STIP is voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3rd Floor, PO Box 200126, Helena, MT 59620-0126.

The State's cash equivalents and investments are detailed in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments to disclose the level of investment risk, when applicable, assumed by the State at June 30, 2006.

(2) All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments. The State invests in certain types of securities, including U.S. government direct-backed, U.S. government indirect-backed, corporate stock/bonds, foreign government bonds, municipals,

equity index, preferred stock, convertible equity securities, American Depositary Receipts (ADRs), equity derivatives, venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments, and cash equivalents, to provide a diversified investment portfolio and an overall competitive rate of return.

U.S. government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. government. U.S. government indirect-backed obligations include U.S. government agency and mortgage-backed securities. U.S. government mortgage-backed securities reflect participation in a pool of residential mortgages.

Common stock represents ownership units (shares) of a public corporation. Common stock owners are entitled to vote on director selection and other important matters, as well as receive dividends on their holdings. Equity index investments are investments in selected mutual funds whose equity portfolios match a broad based index or composite. Preferred stock, as a class of stock, pays dividends at a specified rate and has preference in the payment of dividends and liquidation of assets. Preferred stock holders, ordinarily, do not have voting rights. Convertible securities are securities carrying the right to exchange, or “convert” the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer’s common stock. ADRs are receipts issued by a U.S. depository bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depository bank. Equity derivatives “derive” their value from other equity instruments such as futures and options.

Venture capital represents private equity investments in early stage financing of rapidly growing companies with an innovative product or service. Leveraged buyouts (LBOs) permit an investment group to acquire a company by leveraging debt, as a financing technique, to establish a significant ownership position on behalf of the company’s current management team. Mezzanine investments are the subordinated debt and/or equity of privately-owned companies. The debt holder participates in equity appreciation through conversion features, such as rights, warrants, and/or options.

Distressed debt represents the private and public debt of companies that appear unlikely to meet their financial obligations.

Special situation investments include the investment in the exploration for oil and/or gas reserves or in the development of proven reserves, investment in land to harvest timber, and investments that have a special component usually related to geographical, economic, or social issues. Secondary investments are investments in previously owned limited partnerships. These investments may be direct or via a general partner specializing in secondary investments. Private equity investments are long-term, by design, and extremely liquid.

Investments are presented in the Statement of Net Assets at fair value. Fair values for investment pool securities are determined primarily by reference to market prices supplied to the BOI by BOI’s custodial bank, State Street Bank. Amortized cost represents the original cost, adjusted for premium and discount amortization, where applicable. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Amortized cost may also be referred to as book value.

Under the provisions of state statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State’s agent to lend the State’s securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% to 105% of the fair value of the loaned securities and maintain collateral equal to not less than 100% of the fair value of the loaned security. During the fiscal year, the State’s agent loaned, on behalf of the State, certain securities held by the agent and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit as collateral. The State’s agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership during the loan period. At year-end, the BOI has no credit risk exposure to borrowers because the amount the BOI owes the borrowers exceed the amount the borrowers owe the system.

**B. Cash/Cash Equivalents**

**(1) Cash Deposits** – The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, state statutes require collateralization at 50% of the bank balance. The cash deposits amount includes both primary government and component unit deposits.

**Table 1 - Cash Deposit Amounts**  
(in thousands)

	<b>Carrying Amount</b>
Cash held by State/State's agent	\$ 30,186
Uninsured and uncollateralized cash	4,917
Undeposited cash	1,418
Cash in U.S. Treasury	229,469
Cash in MSU component units	5,917
Cash in UM component units	8,334
Less: outstanding warrants	(56,134)
Total cash deposits	<u>\$224,107</u>

As of June 30, 2006, the carrying amount of deposits for component units was \$92,306,495, as included in Table 1.

**(2) Cash Equivalents** – consists of cash in the State Treasury invested by individual funds in the Short-term Investment Pool (STIP), the Treasurer's Cash Pool, and in identifiable securities and investments considered to be cash equivalents. Cash equivalents, generally, are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents may be under the control of the Board of Investments or other agencies, as allowed by law.

**Table 2 - Cash Equivalents**  
(in thousands)

	<b>Fair Value</b>	<b>Credit Quality Rating</b>	<b>Fund</b>
Commercial paper	\$1,421,009	A1	Various
Corporate fixed	293,961	A1+	Various
Corporate variable-rate	224,992	A1+	Various
Municipal variable-rate	248,884	A1+	Various
Repurchase agreement (1)	18,643	NR	Various
Government direct-indirect (2)	205,126	AAA	Various
Money market	65,289	NR	Various
Less: STIP included in pooled investment balance	(224,859)		
Total cash equivalents	<u>\$2,253,045</u>		
Securities lending collateral investment pool	<u>\$ 36,072</u>		

(1) As of June 30, 2006, a repurchase agreement, per contract, was collateralized at 102% for \$19,024,084 by a Federal Home Loan Mortgage Corporation REMIC maturing July 15, 2033.

(2) The government direct-indirect securities are included in the credit quality rating and effective duration table in Note 3 D (investments).

As of June 30, 2006, local governments invested \$654,914,928 in STIP.

As of June 30, 2006, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$393,690,026.

**Investment Risk Disclosures**

The investment risk disclosures are described in the following paragraphs and are identified by the specific pools or securities to which they pertain, when applicable.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The STIP securities have credit risk as measured by major credit rating services. This risk is that the issuer of a STIP security may default in making timely principal and interest payments. The Board of Investment's policy requires that STIP securities have the highest investment grade rating in the short-term category by at least one of the Nationally Recognized Statistical Rating Organizations (NRSRO).

Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk, and do not require disclosure of credit quality per GASB Statement 40.

STIP investments are categorized above to disclose credit risk as of June 30, 2006. Credit risk reflects the security quality rating, by investment security type, as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006, all STIP securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank, or the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The STIP Investment Policy Statement does not specifically address concentration of credit risk. The policy does provide for "a minimum of three (3%) percent or \$15 million, whichever is higher, to be invested in repurchase agreements." The STIP investments had concentrations of credit risk exposure to the Federal Home Loan Bank of 6.59% as of June 30, 2006.

The concentration of credit risk for the rated securities is included in the disclosure in Note 3 D (investments).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to GASB Statement 40, interest rate disclosures are not required for STIP, since STIP is a "2a-7-like pool".

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

While variable-rate (floating-rate) securities have credit risk identical to similar fixed-rate securities, their interest rate risk is more sensitive to interest rate changes. However, their fair value may be less volatile than fixed-rate securities because their value will usually remain at or near par as a result of their interest rates being periodically reset to maintain a current market yield.

Legal Risk

As of June 30, 2006, Montana was not aware of any legal risks regarding any investments.

### C. Equity in Pooled Investments

These securities consist of investments held by pooled investment funds. The Montana Domestic Equity Pool (MDEP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Purchases are subject to the statutorily mandated "Prudent Expert Principle".

**Table 3 – Equity in Pooled Investments**  
(in thousands)

	Carrying Amount	Fair Value
<b>MDEP:</b>		
Common Stock Pool	\$1,142,029	\$1,307,594
Equity Index Funds	1,248,314	1,428,148
DFA Small Cap Subtrust	133,994	213,902
MidCap Equity Index Fund	165,000	191,368
SPIFF	11,533	11,692
<b>TFBP:</b>		
Corporate bonds (rated)	642,663	643,217
Corporate bonds (unrated)	3,756	3,813
Foreign government bonds	9,933	9,700
Municipal government bonds (rated)	1,135	1,168
Municipal government bonds (unrated)	2,656	2,656
U.S. government direct-backed	58,200	58,629
U.S. government indirect-backed	518,980	509,562
Repurchase agreement (rated)	269	269
STIP	85,583	85,583
<b>RFBP:</b>		
Corporate bonds (rated)	932,793	930,858
Corporate bonds (unrated)	14,036	13,929
Foreign government bonds	4,967	4,850
U.S. government direct-backed	54,701	55,508
U.S. government indirect-backed	736,638	722,334
Repurchase agreement (rated)	448	448
STIP	109,117	109,117
<b>MTIP:</b>		
BGI MSCI Europe Index	546,725	768,769
BOI MSCI Pacific Index	40,005	65,943
DFA International Small Company	78,149	93,071
ISPIFF/SPIFF	28,001	30,496
Schroder Investment Management	114,423	139,113
Nomura Asset Management USA	105,769	143,656
<b>MPEP:</b>		
Private equities	321,925	369,684
State Street SPIFF	31,233	31,043
<b>MTRP:</b>		
STIP	30,160	30,160
Total pooled investments	7,173,135	7,976,280
Pool adjustments (net)	21,187	21,187
Total equity in pooled investments	\$7,194,322	\$7,997,467

At June 30, 2006, the carrying and fair value of the underlying securities on loan was \$188,635,282 and \$193,032,691, respectively. The collateral provided for the securities on loan totaled \$199,919,664.

As of June 30, 2006, component units of the State of Montana had equity in pooled investments with a book value of \$4,570,282,809 and a fair value of \$6,694,378,176, as included in Table 3.

**Investment Risk Disclosures**

The investment risk disclosures are described in the following paragraphs, and are identified by the specific pools to which they pertain, when applicable.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the pool fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires pool fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's or by Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the previous table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

As of June 30, 2006, Northwest Airlines Inc. presented a higher credit risk to the board. The TFBP held a \$9,255,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The book value of this security was \$9,255,000 as of June 30, 2006, and is secured by Northwest Airlines Inc.'s corporate headquarters building and land. The RFBP held a \$5,745,000 par 4.64% Northwest Airlines Inc. real estate backed bond maturing July 7, 2010. The book value of this security was \$5,745,000 as of June 30, 2006, and is secured by Northwest Airlines Inc.'s corporate headquarters building and land.

As of June 30, 2006, Burlington Industries, Inc. presented a legal and higher credit risk to the board. TFBP owns a Burlington Industries, Inc., \$4 million par, 7.25% bond maturing September 15, 2005. RFBP owns a Burlington Industries, Inc., \$6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for these issues were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the TFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$3,739,760 to \$1,600,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$800,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the TFBP received \$969,974 in August 2004 for its unsecured claim. This

transaction reduced the book value to \$0 and generated a gain of \$169,974. In February 2005 and May 2005, the TFBP received an additional \$139,180 and \$129,498, respectively, for its unsecured claim. In May 2006, the Board received an additional \$105,519. During fiscal year 2001, the RFBP book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of \$5,609,640 to \$2,400,000. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to \$1,200,000. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. Under the company's recovery plan, the RFBP received \$1,454,961 in August 2004 for its unsecured claim. This transaction reduced the book value to \$0 and generated a gain of \$254,961. In February 2005 and May 2005, the RFBP received an additional \$208,771 and \$194,247, respectively, for its unsecured claim. In May 2006, the Board received an additional payment of \$158,278. Both the TFBP and RFBP are expected to receive the final distribution in September 2006.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of fiscal year end, all the fixed-income securities were registered in the nominee name for the Montana Board of Investments. The State Street repurchase agreement was purchased in the State of Montana Board of Investments name.

As of June 30, 2006, MTRP's single investment was in STIP.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

According to the TFBP and RFBP investment policies, with the exception of U.S. government indirect-backed (agency) securities, additional TFBP or RFBP portfolio purchases will not be made in a credit if the credit risk exceeds 2 percent of the portfolio at the time of purchase". As of June 30, 2006, the TFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 7.75%. As of June 30, 2006, the RFBP had concentration of credit risk exposure to the Federal Home Loan Mortgage Corp of 5.50%.



Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The TFBP and RFBP investment pool policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk. This information, as provided by our custodial bank, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve plus/minus 100 basis points. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs, and ARMs)."

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

According to GASB Statement 40, "interest rate disclosures are not required for pooled investments if the pool is a 2a-7 like pool". Because STIP operates as a 2a-7 like pool, this exclusion applies to MTRP.

As reported in the U.S. government indirect-backed category, the TFBP portfolio holds REMICs totaling \$84,804 at amortized cost as of June 30, 2006. The RFBP portfolio holds REMICs totaling \$387,052 in amortized cost as of June 30, 2006. These securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

In regard to RFPB, the Interest Only (IO) securities are more sensitive to prepayments by mortgagees resulting from interest rate changes than other REMIC securities. The IO REMIC securities purchased in August and September 1992 carry an amortized cost of \$3 as of June 30, 2006.

The TFBP holds one inverse variable-rate corporate \$15 million par bond. The RFBP holds one inverse variable-rate corporate \$25 million par bond. The quarterly coupon is calculated at a set rate less the 12-month LIBOR in arrears. As interest rates increase, the coupon paid will decline.

State of Montana investments are categorized below to disclose credit and interest rate risk as of June 30, 2006, as required for applicable pools. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

**TFBP**  
**Credit Quality Rating and Effective Duration as of June 30, 2006**  
*(in thousands)*

<b>Security Investment Type</b>	<b>Fair Value</b>	<b>Credit Quality Rating</b>	<b>Effective Duration</b>
Corporate bonds (rated)	\$ 643,217	A	4.93
Corporate bonds (unrated)	3,813	NR	1.48
Foreign government bonds	9,700	BBB	5.83
Municipal government bonds (rated)	1,168	AA	2.70
Municipal government bonds (unrated)	2,656	NR	3.94
U.S. government direct-backed	58,629	AAA	7.37
U.S. government indirect-backed	509,562	AAA	4.77
State Street repurchase agreement (rated) (1)	269	AA-	NA
STIP	85,583	NR	NA
Total fixed-income investments	<u>\$1,314,597</u>	<u>AA-</u>	<u>4.97</u>
Securities lending collateral investment pool	<u>\$ 61,814</u>	NR	NA

(1) At June 30, 2006, the State Street Bank repurchase agreement was collateralized at \$269,625 by an AAA-rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.

**RFBP**  
**Credit Quality Rating and Effective Duration as of June 30, 2006**  
*(in thousands)*

<b>Security Investment Type</b>	<b>Fair Value</b>	<b>Credit Quality Rating</b>	<b>Effective Duration</b>
Corporate bonds (rated)	\$ 930,859	A	5.20
Corporate bonds (unrated)	13,929	NR	3.81
Foreign government bonds	4,850	BBB	5.83
U.S. government direct-backed	55,508	AAA	6.87
U.S. government indirect-backed	722,334	AAA	4.73
State Street repurchase agreement (rated) (1)	448	AA-	NA
STIP	109,116	NR	NA
Total fixed-income investments	<u>\$1,837,044</u>	<u>AA-</u>	<u>5.05</u>
Securities lending collateral investment pool	<u>\$ 84,097</u>	NR	NA

(1) At June 30, 2006, the State Street Bank repurchase agreement was collateralized at \$449,375 by an AAA-rated Federal Home Loan Mortgage Corporation note maturing May 15, 2008.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Several MPEP investments represent limited partnership investments in various foreign countries. Per GASB Statement 40, no foreign currency risk disclosure is required for these limited partnership investments. As provided for in the partnership agreements, currency exposures may be hedged, partially or fully, at the discretion of the manager, to preserve the U.S. dollar value of investments made. Currency speculation, such as over-hedging, reverse hedging or other trading activity not specifically aimed at preserving the U.S. dollar value of investments, is not authorized.

The U.S. dollar balances of the MTIP cash and investments are disclosed by currency in the following table.

**MTIP**  
**Cash by Currency**  
*(in thousands)*

<b>Cash</b>	<b>2006</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Australian Dollar	\$ 67	\$ 68
Hong Kong Dollar	700	699
Japanese Yen	1,305	1,317
South Korean Won	24	24
Malaysian Ringgit	8	8
Philippine Peso	2	3
Singapore Dollar	1,365	1,368
New Taiwan Dollar	168	168
Total cash	<u>\$3,639</u>	<u>\$3,655</u>

The MTIP, through the funds below, has significant investments in 11 foreign countries. Future economic and political developments in these countries could adversely affect the liquidity or value, or both, of the securities held by the funds in which MTIP is invested.

**MTIP**  
**Investment by Security Type**  
*(in thousands)*

Security Investment Type	2006	
	Carrying Amount	Fair Value
BGI MSCI Europe Index	\$546,725	\$ 768,769
BGI MSCI Pacific Index	40,005	65,943
DFA International Small Company	78,149	93,071
ISPIFF/SPIFF	28,001	30,496
Schroder Investment Management	114,423	139,113
Nomura Asset Management U.S.A., Inc.	105,769	143,656
Total investments	<u>\$913,072</u>	<u>\$1,241,048</u>
Securities lending collateral investment pool	\$ 31,331	\$ 31,331

**D. Investments**

Article VIII of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. Long-term investments are administered by the following agencies:

**Long-term Investments**

Department	Percent Administered
Board of Investments	68.31%
PERA (Public Employee Retirement Administration)	15.03
Board of Housing	11.32
Montana State University/University of Montana	3.93
Other (1)	<u>1.41</u>
Total	<u>100.00%</u>

(1) Other consists of the Commissioner of Higher Education, the Department of Administration, the Department of Natural Resources and Conservation, the Department of Public Health and Human Services, and the Montana State Auditors's Office.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable.

**Table 4 – Investments**  
(in thousands)

	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Credit Quality Rating</b>	<b>Effective Duration</b>
<b>Primary government</b>				
Corporate (rated) (1)	\$ 96,371	\$ 95,454		
U.S. govt direct/indirect (rated) (1)	66,491	65,750		
U.S. govt mortgage-backed (rated) (1)	2,494	2,484		
Govt securities	28,881	28,567		
MUS Workers Compensation	2,016	1,954		
Other equities	166,889	166,889		
Total	<u>\$ 363,142</u>	<u>\$ 361,098</u>		
<b>Component units/fiduciary funds</b>				
Corporate (rated) (1)	\$ 365,828	\$ 357,517		
U.S. govt direct/indirect (rated) (1)	327,563	320,864		
U.S. govt mortgage-backed (rated) (1)	21,902	21,599		
Govt securities	272,124	274,811		
Other equities	68,486	83,456		
Deferred compensation	241,774	247,944		
Defined contribution	26,541	30,934		
VEBA	484	482		
Investments of MSU component units	124,653	124,653		
Investments of UM component units	142,631	142,631		
Real estate	16,477	16,693		
Mortgages	80,751	79,809		
Total	<u>\$1,689,214</u>	<u>\$1,701,393</u>		
Total investments	<u>\$2,052,356</u>	<u>\$2,062,491</u>		
Securities lending collateral investment pool	<u>\$ 372,706</u>	<u>\$ 372,706</u>	NR	NA

(1) The credit quality rating and duration are included below for the rated investments.

**AOF Rated Securities**  
**Credit Quality Rating and Effective Duration as of June 30, 2006**  
(in thousands)

<b>Security Investment Type</b>	<b>Fair Value</b>	<b>Credit Quality Rating</b>	<b>Effective Duration</b>
Corporate (1)	\$ 386,073	A	3.69
U.S. government direct-backed (1)	62,683	AAA	4.55
U.S. government indirect-backed (1)	620,037	AAA	2.39
Total	<u>\$1,068,793</u>		<u>2.99</u>

(1) These rated securities are reported on both Table 2 – Cash Equivalents and Table 4 – Investments.

The PERS Defined Contribution Retirement Plan and the deferred compensation plan's fixed assets were invested and managed on behalf of the plans by Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). The third party

record keeper, Great West Retirement Services, tracks and reports the daily trading and valuations of all investment options, including the assets held by the individual mutual fund companies. When participants invest in the fixed investment, they are guaranteed a

rate of return. The PERS-DCRP fixed money is invested in a PIMCO mutual fund. The minimum average portfolio quality must be an A rating; the minimum issue quality must be a BB-rating; and the minimum commercial paper quality must be A2/P2. Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. VEBA (Voluntary Employee Benefit Association) investments are made in mutual fund equities and mutual fund fixed-income funds.

### **Investment Risk Disclosures**

The investment risk disclosures are described in the following paragraphs and are identified by the specific securities to which they pertain, when applicable.

#### Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the AOF (All Other Funds) fixed-income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed-income security may default in making timely principal and interest payments. The Board of Investment's policy requires AOF fixed-income investments, at the time of purchase, to be rated an investment grade as defined by Moody's and/or Standard & Poor's (S&P) rating services. The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the above table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date.

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2006, all the fixed-income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the board's custodial bank, State Street Bank. The Equity Index, Real Estate, Mortgage and Loan investments are

registered in the name of the Montana Board of Investments. The US Bank Municipal Investors Account, State Street and US Bank repurchase agreements were purchased in the State of Montana Board of Investments name.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of one fund, the 20 remaining BOI investment policy statements for various state agencies do not address concentration of credit risk. One fund requires credit risk to be limited to 3 % in any one name except AAA rated issues will be limited to 6%. Investments issued or explicitly guaranteed by the U.S. government and investments by various state agencies are excluded from the concentration of credit risk requirement. As of June 30, 2006, Montana had concentration of credit risk exposure to Federal Home Loan Banks of 6.27% and Federal National Mortgage Association of 9.82%.

This concentration of credit risk includes the rated securities from Table 2 – Cash Equivalents and Table 4 – Investments.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The All Other Funds' investment policies do not formally address interest rate risk. In accordance with GASB Statement 40, the board has selected the effective duration method to disclose interest rate risk.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, and other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

Interest rate risk is disclosed using effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Both the credit quality ratings and duration have been calculated excluding cash equivalents. If duration has not been calculated, duration is indicated by NA (not applicable).

#### Specific Legal and Credit Risk

As of June 30, 2006, Montana was not aware of any specific legal or credit risks regarding any investments.

**NOTE 4. DISAGGREGATION OF ACCOUNTS RECEIVABLE AND PAYABLE**

A disaggregation of the net receivables and accounts payable (by fund type) as of June 30, 2006, follows (amounts in thousands):

**A. Receivables**

Receivables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Licenses and permits	\$ 6,962	\$ 362	\$ -	\$ -	\$ -	\$ -
Taxes	174,931	60,974	-	4,526	-	1,220
Charges for services/ fines/forfeitures	199	10,664	1,581	-	-	-
Investment income	1,972	5,593	-	3,932	5,468	3,355
Contributions/premiums	-	-	-	-	-	-
Other	6,532	11,969	11,027	-	-	494
Total receivables	190,596	89,562	12,608	8,458	5,468	5,069
Less: allowance for doubtful accounts	(8,335)	(7,264)	(1,365)	(48)	-	-
Receivables, net	\$182,261	\$82,298	\$11,243	\$8,410	\$5,468	\$5,069

Receivables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Charges for services	\$ -	\$ -	\$16,000	\$ -
Investment income	-	9,305	36	168
Contributions/premiums	8,441	-	3,103	4,133
Other	-	-	290	349
Total receivables	8,441	9,305	19,429	4,650
Less: allowance for doubtful accounts	(5,925)	-	(128)	-
Receivables, net	\$ 2,516	\$9,305	\$19,301	\$4,650

**B. Payables**

Payables	Governmental Funds					
	General Fund	State Special Revenue	Federal Special Revenue	Coal Severance Tax Permanent	Land Grant Permanent	Nonmajor Governmental
Refunds	\$ 95,742	\$ -	\$ -	\$-	\$ -	\$ -
Tax distributions to other govt	-	48,583	-	-	-	-
Vendors/individuals	43,338	50,997	92,500	-	-	1,932
Payroll	13,780	14,609	5,643	-	-	8
Accrued interest	-	-	3	-	5,344	5
Other	557	568	49	-	-	10
Total	\$153,417	\$114,757	\$98,195	\$-	\$5,344	\$1,955

Payables	Proprietary Funds			
	Unemployment Insurance	Economic Development Bonds	Nonmajor Enterprise	Internal Service
Vendors/individuals	\$274	\$ 13	\$5,885	\$6,548
Payroll	-	11	580	2,285
Accrued interest	-	1,153	3	-
Total	\$274	\$1,177	\$6,468	\$8,833

**NOTE 5. CAPITAL ASSETS**
**A. Primary Government**

Changes in capital asset balances for the fiscal year ended June 30, 2006, are reflected in the following table (in thousands):

**Primary Government**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 354,857	\$ 37,421	\$ (13,795)	\$ 378,483
Construction work in progress	201,936	118,546	(3,715)	316,767
Other (1)	70,033	81,390	(1)	151,422
Total capital assets, not being depreciated	626,826	237,357	(17,511)	846,672
Capital assets, being depreciated				
Infrastructure	3,265,389	405,083	(252,488)	3,417,984
Land improvements	16,396	4,635	(572)	20,459
Buildings/improvements	366,291	25,256	(5,581)	385,966
Equipment	257,137	26,063	(14,003)	269,197
Other	3,548	118	-	3,666
Total capital assets, being depreciated	3,908,761	461,155	(272,644)	4,097,272
Less: accumulated depreciation for:				
Infrastructure	(1,479,468)	(142,193)	243,826	(1,377,835)
Land improvements	(2,143)	(1,006)	19	(3,130)
Buildings/improvements	(160,838)	(11,932)	4,124	(168,646)
Equipment	(156,947)	(18,240)	8,740	(166,447)
Other	(3,182)	(206)	-	(3,388)
Total accumulated depreciation	(1,802,578)	(173,577)	256,709	(1,719,446)
Total capital assets, being depreciated, net	2,106,183	287,578	(15,935)	2,377,826
Intangible assets (1)	72,649	18,762	(75,332)	16,079
Governmental activity capital assets, net	\$ 2,805,658	\$ 543,696	\$(108,777)	\$ 3,240,577

(1) Land easements were reclassified from intangible assets to other – nondepreciable assets.



**Primary Government (continued)**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 800	\$ -	\$ -	\$ 800
Construction work in progress	867	59	(617)	309
Total capital assets, not being depreciated	1,667	59	(617)	1,109
Capital assets, being depreciated				
Infrastructure	884	-	-	884
Land improvements	2,343	-	-	2,343
Buildings/improvements	6,098	1,203	-	7,301
Equipment	10,062	448	(5,333)	5,177
Total capital assets, being depreciated	19,387	1,651	(5,333)	15,705
Less: accumulated depreciation for:				
Infrastructure	(505)	(17)	-	(522)
Land improvements	(131)	(107)	-	(238)
Buildings/improvements	(3,754)	(184)	-	(3,938)
Equipment	(7,655)	(1,092)	5,328	(3,419)
Total accumulated depreciation	(12,045)	(1,400)	5,328	(8,117)
Total capital assets, being depreciated, net	7,342	251	(5)	7,588
Intangible assets	661	-	(248)	413
Business-type activity capital assets, net	\$ 9,670	\$ 310	\$ (870)	\$ 9,110

Depreciation expense was charged to governmental functions as follows (in thousands):

	<b>Amount</b>
General government	\$ 4,634
Public safety/corrections	5,333
Transportation (including depreciation of the highway system maintained by the State)	119,536
Health/social services	2,464
Education/cultural	2,528
Resource/recreation/environment (including depreciation of the State's dams).	3,025
Economic development/assistance	770
Depreciation and amortization on capital assets held by the State's internal service funds is charged to the various functions based on their usage of the assets.	11,091
Total depreciation expense – governmental activities	<u>\$149,381</u>

Depreciation expense was charged to business-type activities as follows (in thousands):

	<b>Amount</b>
Liquor Stores	\$ 97
State Lottery	668
General Government Services	186
Prison Funds	271
Total depreciation expense – business-type activities	<u>\$1,222</u>

**B. Discretely Presented Component Units**

The following table summarizes net capital assets reported by the discretely presented component units (in thousands). All component units, other than higher education units, are included under the "Other" caption for this schedule:

**Discretely Presented Component Units**

	Montana State University (MSU)	University of Montana (UM)	Other	Total
Capital assets, not being depreciated				
Land	\$ 6,508	\$ 7,126	\$ -	\$ 13,634
Construction work in progress	15,997	29,692	376	46,065
Capitalized collections	7,827	15,461	-	23,288
Livestock for educational purposes	3,000	-	-	3,000
Total capital assets, not being depreciated	33,332	52,279	376	85,987
Capital assets, being depreciated				
Infrastructure	32,128	-	-	32,128
Land improvements	13,606	12,619	-	26,225
Buildings/improvements	306,565	331,305	-	637,870
Equipment	96,214	46,344	3,954	146,512
Other	59,331	49,323	-	108,654
Total capital assets, being depreciated	507,844	439,591	3,954	951,389
Less: accumulated depreciation	(292,438)	(244,101)	(2,399)	(538,938)
Total capital assets, being depreciated, net	215,406	195,490	1,555	412,451
Intangible assets	493	503	4,725	5,721
Capital assets (net) of MSU component units	8,026	-	-	8,026
Capital assets (net) of UM component units	-	4,949	-	4,949
Discretely presented component units				
Total capital assets, net	\$ 257,257	\$ 253,221	\$ 6,656	\$ 517,134

**NOTE 6. RETIREMENT PLANS****Defined Contribution Plans**

**ORP – Optional Retirement Program** – Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF); only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP, participate in the Teachers Retirement System or the Public Employees Retirement System, benefit plans discussed in the next section. Beginning July 1, 1993, membership in the ORP was mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses, and the employee life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Required employee contributions were 7.03% of salary; required employer contributions were 4.91% of salary, for a total of 11.9% of salary contributed to the ORP.

	<b>TIAA-CREF</b> <i>(in thousands)</i>
Covered payroll	\$145,294
Total payroll	308,615
Employer contributions	\$ 7,138
Percent of covered payroll	4.91%
Employee contributions	\$ 10,210
Percent of covered payroll	7.03%

**PERS-DCRP – Public Employees Retirement System - Defined Contribution Retirement Plan** – This plan is a multiple-employer plan created by the 1999 Legislature and is governed by Title 19, Chapters 2 & 3 of the MCA. The plan began receiving contributions on July 1, 2002.

All new hires initially are members of the Public Employees Retirement System - Defined Benefit Retirement Plan (PERS-DBRP). New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the current PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. Members of the defined contribution retirement plan will decide how to invest their contributions and a portion of their employer contributions among the offered investment options. The remaining portion of employer contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits, and to fund an employee education program.

The PERS-DCRP has received a long-term loan through the Montana Department of Administration, with the BOI to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. Five loan draws were taken in the total amount of \$1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the PERS-DCRP implementation date. The loan was renegotiated as a single sum in fiscal year 2004, to be repaid over a period of 15 years. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance.

For information on the repayment schedules on the loan, please see the separately issued PERS-DCRP financial statements.

The PERS requested an inter-entity loan in the amount of \$2,000 from the General Fund to the Municipal Police Officers Retirement System (MPORS) fund at the end of fiscal year 2006. This loan was repaid on August 8, 2006.

**Deferred Compensation Plan**

**457 – Deferred Compensation Plan** – The 457 plan was established in 1976 and is governed by Title 19, Chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) 457. All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate. As of June 30, 2006, the net assets of the plan were \$248,226,353.

The 457 plan is a voluntary, supplemental retirement savings plan. Assets of the 457 plan are required to be held in trusts, custodial accounts, or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, within IRC limits. The deferred salary is not available to employees until separation from

service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRC-specified criteria. Participant rights are fully vested in their accounts at the time of deposit.

## Defined Benefit Plans

### A. General

The Public Employees Retirement Board (PERB), a discretely presented component unit of the State of Montana, administers eight defined benefit plans: Public Employees Retirement System (PERS-DBRP), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), Sheriffs Retirement System (SRS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), and Volunteer Firefighters Compensation Act (VFCA). The PERB prepares a publicly issued comprehensive annual

financial report that includes financial statements and required supplementary information for PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, VFCA, as well as the two defined contribution plans, PERS-DCRP and 457 plan. Separately issued financial statements can be obtained at 100 North Park, PO Box 200131, Helena, MT 59620-0131.

The financial statements for PERS-DBRP include activity for the defined benefit and the associated education fund. The PERS-DCRP financial statements include activity for the defined contribution and the associated education and disability funds.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The plan prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS. Separately issued financial statements can be obtained at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

A summary of government employers participating in PERS-DBRP, MPORS, FURS, SRS, HPORS, JRS, GWPORS, PERS-DCRP, 457, and TRS by employer type at June 30, 2006, follows:

Retirement Plan										
	PERS-DBRP	MPORS	FURS	SRS	HPORS	JRS	GWPORS	PERS-DCRP	457	TRS
<b>Employers</b>										
State agencies	36		1	1	1	1	4	29	36	8
Counties	55			56				43	2	
Cities/towns	94	22	16					41		
Colleges/universities	5						3	5	6	5
School districts	239							81	2	366
Other	95							30	2	
<b>Total</b>	<b>524</b>	<b>22</b>	<b>17</b>	<b>57</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>229</b>	<b>48</b>	<b>379</b>

### B. Plan Descriptions

The State contributes to and/or administers ten plans in two categories: (1) the State as the single employer; and (2) the State as an employer contributor to cost-sharing, multiple-employer plans.

The number of years required to obtain vested rights varies among the plans. All plans provide early retirement options, death benefits, termination, and disability benefits. The post-retirement benefits of each of the plans are included in the tables that follow.

The funding policies for each plan provide for periodic employer and employee contributions (except VFCA) at rates specified by state law. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry-age normal-cost method, with

both normal cost and amortization of the unfunded actuarial liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost, in addition to amortizing the unfunded liability over a period not to exceed 30 years.

#### (1) State as the Single Employer

**HPORS – Highway Patrol Officers Retirement System** – This plan, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Members or their survivors may be eligible for an annual supplemental lump sum payment distributed each September. Many factors must be considered for eligibility, including the number of year the recipient has received a benefit and the recipient's age. This lump-sum payment is funded by the General

Fund at the request of the PERB. The average payment in September 2006 was \$3,139. This enhancement is limited to non-GABA (Guaranteed Annual Benefit Adjustment) members.

**JRS – Judges Retirement System** – This plan, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all Montana judges of district courts, justices of the Supreme Court, and the Chief Water Judge.

## (2) State as an Employer Contributor to Cost-Sharing, Multiple-Employer Plans

**PERS-DBRP – Public Employees Retirement System - Defined Benefit Retirement Plan** – This mandatory plan, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public plan.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 1.01% of payroll would be required to fund the current and projected benefits from the Defined Benefit plan in accordance with GASB standards and state law.

**MPORS – Municipal Police Officers Retirement System** – The plan, established in 1974 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of first and second-class cities covered by the plan. It is a cost-sharing defined benefit plan with a special funding situation.

As of July 1, 2002, eligible members of MPORS have the opportunity to participate in the Deferred Retirement Option Plan (DROP) by filing a one-time irrevocable election with the PERB. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least 20 years of membership service. They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the plan for the duration of the

member's DROP period. During the participation in the DROP, all mandatory contributions continue to be made to the retirement plan. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends, they will again accrue membership service, and the DROP account cannot be distributed until employment is formally terminated.

**FURS – Firefighters Unified Retirement System** – This plan, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. It is a multiple-employer, cost-sharing defined benefit plan.

**SRS – Sheriffs Retirement System** – This plan, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers State Department of Justice criminal investigators hired after July 1, 1993, and all Montana sheriffs.

Effective July 1, 2005, Senate Bill 370 provided membership for county detention officers in the SRS. All detention officers hired after July 1, 2005, will be in the SRS. Existing detention officers may elect to remain in the PERS or elect to become a member of the SRS.

Actuarial Status: The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 1.84% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

**GWPORS – Game Wardens & Peace Officers Retirement System** – This plan, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA,

provides retirement benefits for all persons employed as a game warden, warden supervisory personnel, and state peace officers not eligible to join the SRS, HPORS, or MPORS plans.

**Actuarial Status:** The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 8% per year. Based on the actuarial assumptions as of June 30, 2006, an additional funding rate of 0.04% of payroll would be required to fund the current and projected benefits from the retirement plan in accordance with GASB standards and state law.

**VFCA – Volunteer Firefighters Compensation Act** – This compensation program, established in 1965 and governed by Title 19, Chapters 2 and 17 of the MCA, provides pension, disability and survivorship benefits for all volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas of the state. VFCA also provides limited medical expenses for injuries incurred in the line of duty. VFCA is a plan with a special funding situation.

The 2003 Legislature amended the law so that members of the VFCA can accumulate more than 20 years of

service beginning when they are age 55, if they already have 20 years of service (effective July 1, 2003).

**TRS – Teachers Retirement System** – This mandatory plan, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

**Actuarial Status:** The Montana Constitution, Article VIII, Section 15, requires public retirement plans be funded on actuarially sound basis. The statutory funding rate is tested in the valuation to determine if it is sufficient to cover the normal cost rate plus an amortization payment of the unfunded actuarial liability, if any, over no more than 30 years. Based on the current actuarial value of assets and all future experience emerging as assumed, the unfunded actuarial liability will not be amortized over the next 30 years. In general, the deterioration of the funded status is primarily due to recognizing prior investment losses due to returns less than the long-term assumed rate of 7.75% per year. The plan's actuary has determined that as of July 1, 2006, the current employer contribution rate of 7.47% plus the General Fund contribution of 0.11% of members' salaries are insufficient to meet the actuarial cost. The unfunded actuarial accrued liability of \$863.1 million is included in the Schedules of Funding Progress.

A brief summary of contribution rates, eligibility and benefits for each retirement plan is provided in the tables on the following three pages.

**Schedule of Contribution Rates  
Fiscal Year 2006**

<b>Plan</b>	<b>Member</b>	<b>Employer</b>	<b>State</b>
<b>PERS-DBRP</b>	<b>6.9%</b> [19-3-315, MCA]	<b>6.9%</b> State & University <b>6.8%</b> Local Governments [19-3-316, MCA]	<b>0.1%</b> of local government payroll – paid from the General Fund [19-3-319, MCA]
<b>MPORS</b>	<b>5.8%</b> - hired on or before 6/30/1975 & not electing GABA [19-9-710(a), MCA]  <b>7.0%</b> - hired after 6/30/1975 & prior to 7/1/1979 & not electing GABA [19-9-710(b), MCA]  <b>8.5%</b> - hired after 6/30/1979 & prior to 7/1/1997 & not electing GABA [19-9-710(c), MCA]  <b>9.0%</b> - hired after 6/30/1997 & members electing GABA [19-9-710(d), MCA]	<b>14.41%</b> [19-9-703, MCA]	<b>29.37%</b> of salaries – paid from the General Fund [19-9-702, MCA]
<b>FURS</b>	<b>9.5%</b> - hired prior to 7/1/1997 & not electing GABA [19-13-601(2)(a), MCA]  <b>10.7%</b> - hired after 6/30/1997 & members electing GABA [19-13-601(2)(b), MCA]	<b>14.36%</b> [19-13-605, MCA]	<b>32.61%</b> of salaries – paid from the General Fund [19-13-604, MCA]
<b>SRS</b>	<b>9.245%</b> [19-7-403, MCA]	<b>9.535%</b> [19-7-404, MCA]	
<b>HPORS</b>	<b>9.0%</b> - hired prior to 7/1/1997 & not electing GABA  <b>9.05%</b> - hired after 6/30/1997 & members electing GABA [19-6-402, MCA]	<b>26.15%</b> [19-6-404(1), MCA]  <b>10.18%</b> of salaries – paid from driver license fees [19-6-404(2), MCA]	
<b>JRS</b>	<b>7.0%</b> [19-5-402, MCA]	<b>25.81%</b> [19-5-404, MCA]	
<b>GWPORS</b>	<b>10.56%</b> [19-8-502, MCA]	<b>9.0%</b> [19-8-504, MCA]	
<b>VFCA</b>			<b>5.0%</b> of fire insurance premiums, paid by the General Fund [19-17-301, MCA]
<b>PERS-DCRP</b>	<b>6.9%</b> [19-3-315, MCA]	<b>6.9%</b> State & University <b>6.8%</b> Local Governments [19-3-316, MCA]	<b>0.1%</b> of local government payroll – paid from the General Fund [19-3-319, MCA]
<b>TRS</b>	<b>7.15%</b> [19-20-602, MCA]	<b>7.47%</b> [19-20-605, MCA]	<b>0.11%</b> of members' salaries [19-20-604, MCA]

**Summary of Eligibility and Benefits**

Plan	Member's Highest Average Compensation (HAC)	Years of Service Required and/or Age Eligible for Benefit	Vesting
<b>PERS-DBRP</b>	Highest average compensation during any consecutive 36 months	Service retirement: 30 years, any age; Age 60, 5 years of service; or Age 65, regardless of service Early retirement, actuarially reduced: Age 50, 5 years of service; or Any age, 25 years of service	5 years membership service
<b>MPORS</b>	Hired prior to 7/1/1977 – average monthly compensation of final year of service; hired after 6/30/1977 – final compensation for last consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
<b>FURS</b>	Hired prior to 7/1/1981 and not electing GABA – highest monthly compensation (HMC); hired after 6/30/1981 and those electing GABA – highest average compensation (HAC) during any consecutive 36 months	20 years, regardless of age; age 50, 5 years of service	5 years membership service
<b>SRS</b>	Highest average compensation during any consecutive 36 months	20 years membership service, regardless of age; age 50, 5 years of service, actuarially reduced	5 years membership service
<b>HPORS</b>	Highest average compensation during any consecutive 36 months	20 years of service, regardless of age; 5 years of membership service, actuarially reduced from age 60	5 years membership service
<b>JRS</b>	Hired prior to 7/1/1997 and non-GABA – monthly compensation at time of retirement; hired after 6/30/1997 or electing GABA – HAC during any consecutive 36 months (relates directly to monthly benefit formula)	Age 60, 5 years of membership service; any age with 5 years of membership service – involuntary termination, actuarially reduced	5 years membership service
<b>GWPORS</b>	Highest average compensation during any consecutive 36 months	Age 50, 20 years of membership service; age 55, 5 years of membership service	5 years membership service
<b>VFCA</b>		Age 55, 20 years of credited service (full benefit); age 60, 10 years of service (partial benefit). As of 4/25/2005 (Senate Bill 197), members may retire with greater than 20 years of service, but not more than 30 years of service.	10 years of service credit
<b>PERS-DCRP</b>		Termination of service	Immediate for member's contributions and attributable income; 5 years for employer's contributions and attributable income
<b>TRS</b>	Final average compensation during any consecutive 36 months	Age 60, 5 years of service, or any age with at least 25 years of service. Vested employees may retire at or after age 50 and receive reduced benefits.	5 years of membership service



Summary of Eligibility and Benefits *(continued)*

Plan	Monthly Benefit Formula	Guaranteed Annual Benefit Adjustment (GABA)	Minimum Benefit Adjustment (Non-GABA)
PERS-DBRP	Less than 25 years of membership service: 1.785% of HAC per year of service credit; 25 years of service or more: 2% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	
MPORS	2.5% of FAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed officer in the city that the member was last employed.
FURS	Members hired prior to 7/1/1981 and not electing GABA are entitled to the greater of: 2.5% of HAC per year of service credit; or (1) if less than 20 years of service, 2% of HMC for each year of service; or (2) if more than 20 years of service, 50% of the member's HMC plus 2% of the member's HMC for each year of service credit over 20 years. Members hired after 6/30/1981 and those electing GABA receive 2.5% of HAC per year of service credit.	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	If hired before 7/1/1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than 1/2 the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit).
SRS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
HPORS	2.5% of HAC per year of service	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit.	Hired prior to 7/1/1997 – monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer.
JRS	3 1/3% of current salary (non-GABA) or HAC (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years	Hired after 7/1/1997, or those electing GABA – after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other benefit adjustments to the members.	Hired prior to 7/1/1997 – current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges.
GWPORS	2.5% of HAC per year of service credit	After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit.	
VFCA	\$7.50 per year of credited service, maximum \$150; if greater than 20 years of service (but not more than 30 years), maximum \$225		
PERS-DCRP	varies		
TRS	1.6667% of average final compensation (AFC) per year of service		

**C. Summary of Significant Accounting Policies**

The pension trust funds' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refund distributions are recognized when due and payable in accordance with the terms of each plan.

**D. Method Used to Value Investments**

The Montana Board of Investments (BOI) manages the investments for the defined benefit retirement plans. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the

BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement plans have no investments with a single issuer whose fair value equals 5% or more of the retirement plans net assets available for benefits.

**E. Long-term Contracts for Contributions**

The Montana Legislature also enacted a provision of the Employee Protection Act (EPA) (Title 19, Chapter 2, Part 706. MCA), allowing state and university system employees, eligible for a service retirement, whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1 for 5" additional service. As of June 30, 2006, 165 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received, including interest, during fiscal year 2006 were \$123,784. June 30, 2006, outstanding balances were \$49,261.

**NOTE 7. OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 6, Retirement Plans, the following postemployment benefits are provided:

The State and the Montana University System (MUS) provide 18 to 36 months optional postemployment health care and dental benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA), to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue state employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2006, 55 certificate holders were receiving these benefits for the State of Montana, 108 for the Montana University System.

In accordance with MCA 2-18-704, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement plan (See Note 6). Administratively established retiree medical premiums vary between \$155 and \$675 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$27.80 and \$45.80, and vision premiums vary between \$8.44 and \$21.94 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2006, there were 3,318 retirees covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. Vision services are provided at prices ranging from a \$10 copay to a \$120 allowance depending on the services obtained and the network status of the provider. Vision coverage is fully insured; therefore premium contributions reflect the total cost to the State during the year. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. During the fiscal year, expenditures of \$21,206,622 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$15,460,535 leaving \$5,746,087 of claims paid in excess of premium revenue received by the State.

In accordance with MCA 2-18-702, the Montana University System provides postretirement health

insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least five years, are age 50 or have worked 25 years with the MUS. Spouses, unmarried dependent children, and surviving spouses are also eligible.

Administratively established premiums vary between \$210 and \$603 per month, and are revised annually. The plan provides different coinsurance amounts depending on whether members use preferred, non-preferred, or other hospitals. After an annual \$575 deductible for most non-Medicare-eligible retirees, the MUS plan reimburses 80% of the first \$2,500 in medical claims and 100% thereafter. After a \$400 deductible for Medicare-eligible retirees, the plan reimburses 80% for the first \$1,250 in medical claims and 100% thereafter. There is an optional \$1,500 deductible plan available to retirees with a reduced premium. This plan has a small enrollment (77 enrollees). After the \$1,500 annual deductible, the plan pays 75% of the first \$8,000 and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2006, 1,427 retirees were enrolled in the MUS plan.

Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2006, expenditures of \$8,678,927 were recognized for postemployment health care benefits. Of this amount, \$6,248,223 was paid by retirees through premiums, and the balance of \$2,430,704 was paid by the MUS.

As of July 1, 2006, retirees can now choose a managed care option, if available, in their area. The managed care premiums are lower and there are more first dollar benefits. After an in-network deductible of \$300, the plan reimburses 75% for the first \$2,000 and 100% thereafter. The managed care plans have a small enrollment (30 enrollees) for this first year offering to retirees.

For the fiscal year ending June 30, 2007, the State and the MUS will implement GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the disclosure of the employer liability for retiree medical subsidies and other postemployment benefits. The annual required contribution (ARC) will be equal to an amount required each year to fully fund the liability over 30 years. The estimated ARC for the State and the MUS has been estimated at \$29,892,000 and \$21,477,000, respectively. The amount of the estimated OPEB liability at transition was determined in accordance with the Statement, and has been estimated at \$306,150,000 for the State and \$218,963,000 for the MUS. These estimates were prepared by Buck Consultants.

**NOTE 8. RISK MANAGEMENT**

There are three primary government public entity risk pools and one claims-servicing pool that are reported within the enterprise fund. These pools include Hail Insurance, the Montana University System (MUS) Group Benefits Plan, the Montana University System Workers Compensation funds, and the Subsequent Injury claims-servicing pool. The two component unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. The primary government reports its own risk management activity within two internal service funds: Group Employees Comprehensive Medical and Dental Plan and Property and Casualty Insurance Plans. In all of these funds, there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage for the last three years. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock, except for the State Compensation Insurance funds. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

**A. Public Entity Risk Pools**

**(1) Hail Insurance** – Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 2,107 policies during the 2006 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency, of which there is none.

A claim must be submitted to the State Board of Hail Insurance within 14 days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas, or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain that exceeds 5% destruction by hail.

The fund recorded a liability of \$94,405 based on estimated claims through June 30, 2006. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

**(2) Montana University System (MUS) Group Benefits Plan** – This plan was authorized by the Board of Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured, except for life insurance, long-term disability, and vision insurance. Allegiance Benefit Plan Management is the claims administrator for the self-insured indemnity plan and a managed care plan. New West Health Services, Blue Cross/Blue Shield of Montana, and Peak administers claims for the three other managed care plans. Star Point has a contract for utilization management: the utilization management program consists of hospital pre-authorization and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The claims liability is calculated by Buck Consultants and estimated to be \$6,250,000 as of June 30, 2006, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

**(3) Montana University System (MUS) Workers Compensation Program** – This fund was formed to provide self-insured workers compensation coverage for employees of the Montana University System. The Montana University System Board of Regents elected to provide workers compensation coverage under Compensation Plan Number One (MCA 39-71-2101) as of July 1, 2003. Prior to that date, the Montana University System obtained its workers compensation coverage through the State Compensation Insurance Fund. The program is self-insured for workers compensation claims to a maximum of \$500,000 per each occurrence. Losses in excess of \$500,000 are covered by reinsurance with a commercial carrier. Employer's liability claims are covered to a maximum of \$1,000,000 above the self-insured amount of \$500,000. During fiscal year 2006, the program ceded \$198,718 in premiums to reinsurers.

Premium rates for all participating employees are based on rates established by the MUS Workers Compensation Program Committee. Premium rates are adjusted periodically based on inflation, claims experience, and other factors. Premiums are recorded as revenue in the MUS Workers Compensation Program in the period for which coverage is provided. Members may be subject to supplemental assessments in the

event of deficiencies. The program considers anticipated investment income in determining if a premium deficiency exists.

The fund recorded a liability of \$4,538,528 for estimated claims at June 30, 2006. The liability is based on the estimated ultimate cost of settling the reported and unreported claims, and claims reserve development including the effects of inflation and other societal and economic factors. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Estimated claims liabilities are recomputed periodically based on current review of claims information, experience with similar claims, and other factors. Adjustments to estimated claims liabilities are recorded as an increase or decrease in claims expense in the period the adjustments are made.

**(4) Subsequent Injury** – This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104-week time period.

Workers compensation insurance premium experience modification factors are influenced by the two-year limitation, and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2006, the amount of this liability was estimated to be \$2,976,711. Since each insurer is responsible for its own claim liabilities, the pool is acting as a claims service and there is no transfer or pooling of risk.

**(5) State Compensation Insurance (New Fund)** – This fund provides liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund is a self-supporting, competitive State fund, and functions as the insurer of last resort. At June 30, 2006, approximately 28,410 employers were

insured with the New Fund. Anticipated investment income is considered for computing a premium deficiency, and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2006, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2006, \$590,688,000 of unpaid claims and claim adjustment expenses were presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs for the fiscal year ended June 30, 2006, was \$569,570. For the fiscal year ended June 30, 2006, \$774,963 of acquisition costs were amortized.

Statute requires the New Fund set premiums at least annually at a level sufficient to insure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus above risk-based capital requirements to secure the New Fund against risks inherent in the business of insurance.

**(6) State Compensation Insurance (Old Fund)** – The liability and payment of workers compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2006, estimated the cost of settling claims that have been reported, but not settled; and claims that have been incurred, but not reported. At June 30, 2006, \$97,768,808 of unpaid claims and claim adjustment expenses were reported at a net present value of \$73,736,659, discounted at a 5.0% rate.

**(7) Changes in Claims Liabilities For the Past Two Years** – As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

	<b>Primary Government</b>				<b>MUS Workers Compensation Program</b>	
	<b>Hail Insurance</b>		<b>MUS Group Benefits</b>			
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 191	\$ 95	\$ 4,619	\$ 4,663	\$ 3,138	\$1,622
Incurring claims and claim adjustment expenses:						
provision for insured events of the current year	2,447	1,978	48,163	37,533	2,453	2,366
Increase (decrease) in provision for insured events of prior years	(320)	(285)	1,631	(44)	62	-
Total incurred claims and claim adjustment expenses	2,127	1,693	49,794	37,489	2,515	2,366
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current year	(2,033)	(1,502)	(48,163)	(37,533)	(391)	(382)
Claims and claim adjustment expenses attributable to insured events of prior years	(191)	(95)	-	-	(724)	(468)
Total payments	(2,224)	(1,597)	(48,163)	(37,533)	(1,115)	(850)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 94	\$ 191	\$ 6,250	\$ 4,619	\$ 4,538	\$3,138

	<b>Component Units</b>			
	<b>State Compensation Insurance (New Fund)</b>		<b>State Compensation Insurance (Old Fund)</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Unpaid claims and claim adjustments expenses at beginning of year	\$ 511,557	\$ 452,115	\$104,852	\$108,500
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	170,399	149,542	-	-
Increase (decrease) in provision for insured events of prior years	35,439	10,070	3,811	6,691
Total incurred claims and claim adjustment expenses	205,838	159,612	3,811	6,691
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(36,132)	(25,721)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(90,575)	(74,449)	(10,894)	(10,339)
Total payments	(126,707)	(100,170)	(10,894)	(10,339)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 590,688	\$ 511,557	\$ 97,769	\$104,852

**(8) Risk Management Trend Information** – The following tables only present risk management trend information for the State Compensation Insurance (New Fund) and the MUS Workers Compensation Insurance. Both funds have a three to five-year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five-year development cycle. The MUS Group Benefits Fund pays claims within the calendar year, and the plan limits the timing for submission of claims; therefore, it has no three to five-year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The tables illustrate how the earned revenues (net of reinsurance) of the funds and their investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the funds as

of the end of the fiscal year (in thousands). Section 3 shows the funds' incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest re-estimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be revised as data for successive policy years develops.

<b>MUS Workers Compensation Program</b>			
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>1. Premiums and investment revenue</b>			
Earned	\$3,709	\$3,048	\$2,425
Ceded	(199)	(197)	(151)
Net earned	\$3,510	\$2,851	\$2,274
<b>2. Unallocated expenses including overhead</b>	\$ 264	\$ 280	\$ 227
<b>3. Estimated losses and expenses end of accident year</b>			
Incurred	\$2,453	\$2,366	\$2,174
Ceded	-	-	-
Net incurred	\$2,453	\$2,366	\$2,174
<b>4. Net paid (cumulative) as of:</b>			
End of policy year	\$ 391	\$ 382	\$ 552
One year later		1,002	1,020
Two years later			1,124
<b>5. Re-estimated ceded losses and expenses</b>	\$ -	\$ -	\$ -
<b>6. Re-estimated net incurred losses and expense:</b>			
End of policy year	\$2,453	\$2,366	\$2,174
One year later		2,565	2,174
Two years later			2,037
<b>7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year</b>	\$ -	\$ 199	\$ (137)

*(State Compensation Insurance (New Fund) Table presented on next page)*



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Premiums and investment revenue										
Earned	\$105,417	\$90,808	\$82,760	\$91,565	\$116,548	\$129,886	\$166,146	\$174,388	\$222,230	\$170,973
Ceded	(348)	(303)	(260)	(855)	(2,952)	465	(5,654)	(6,563)	(6,788)	(13,618)
Net earned	\$105,069	\$90,505	\$82,500	\$90,710	\$113,596	\$130,351	\$160,492	\$167,825	\$215,442	\$157,355
2. Unallocated expenses including overhead	\$ 12,536	\$14,322	\$18,923	\$22,019	\$ 26,670	\$ 29,393	\$ 32,497	\$ 39,057	\$ 41,543	\$ 45,558
3. Estimated losses and expenses end of accident year										
Incurred	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057
4. Net paid (cumulative) as of:										
End of policy year	\$ 12,589	\$12,943	\$13,723	\$13,177	\$ 14,140	\$ 16,693	\$ 22,982	\$ 26,123	\$ 25,721	\$ 30,977
One year later	28,451	28,222	29,976	29,218	32,888	38,185	48,861	50,888	57,239	
Two years later	35,706	35,753	39,298	37,555	45,218	52,359	63,773	66,140		
Three years later	39,860	41,004	45,748	43,649	55,248	60,029	72,957			
Four years later	43,105	44,478	49,984	48,322	61,486	64,922				
Five years later	46,478	47,584	54,212	52,027	66,031					
Six years later	48,505	50,188	56,974	54,473						
Seven years later	50,402	52,240	59,935							
Eight years later	52,285									
Nine years later	54,204									
5. Re-estimated ceded losses and expenses	\$ 6,645	\$ 609	\$ 1,940	\$ -	\$ -	\$ -	\$ 2,901	\$ -	\$ -	\$ -
6. Re-estimated net incurred losses and expense:										
End of policy year	\$ 76,067	\$64,983	\$64,645	\$65,957	\$ 68,267	\$ 81,560	\$110,153	\$120,705	\$134,290	\$155,057
One year later	67,235	64,308	64,348	66,421	71,094	86,799	110,532	112,609	136,235	
Two years later	59,054	60,467	66,660	66,662	81,053	91,241	112,443	124,413		
Three years later	60,811	61,989	69,345	70,302	88,157	94,615	117,245			
Four years later	64,439	64,944	72,435	72,492	92,329	99,755				
Five years later	59,079	67,312	73,710	73,423	95,727					
Six years later	60,528	67,772	75,537	76,048						
Seven years later	60,630	68,601	78,046							
Eight years later	60,774	69,764								
Nine years later	62,446									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (13,621)	\$ 4,781	\$13,401	\$10,091	\$ 27,460	\$ 18,195	\$ 7,092	\$ 3,708	\$ 1,945	\$ -

**B. Entities Other Than Pools**

**(1) Employee Group Benefits** – The medical and dental health plans provided by the State are fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents. The State contracts with Blue Cross/Blue Shield, PEAK, New West, and PharmaCare for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Administration, the Legislative Branch, and self-payments, and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2006, estimates for claims liabilities, which include both incurred but not reported claims and grandfathered claims resulting from a 1998 change in period for which the benefit coverage is available, were \$12,516,577 based on a formula provided by Buck Consultants, a consulting actuarial firm, of which \$9,707,398 is estimated to be paid in fiscal year 2007.

**(2) Administration Insurance Plans** – This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability, and state-administered foreclosure of housing units. The State self-insures the \$250,000 deductible per occurrence for most property insurance, as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$250,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$3.2 billion of state-owned buildings and contents. The State's property insurance includes separate earthquake and flood protection coverage, with deductibles of \$250,000 for earthquake and \$250,000 for flood per occurrence. Premiums are collected from all state agencies, including component units, and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1995 through June 30, 2006, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2006 estimated claims liability was \$16,215,516.

**(3) Changes in Claims Liabilities for the Past Two Years** – These funds establish liabilities for both reported and incurred, but not reported, claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	<b>Group Employees Benefits</b>		<b>Administration Insurance</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Amount of claims liabilities at the beginning of each fiscal year	\$ 11,675	\$ 11,195	\$20,328	\$25,558
Incurring claims:				
Provision for insured events of the current year	84,473	76,725	5,636	6,356
Increases (decreases) in provision for insured events of prior years	842	480	(5,017)	(5,535)
Total incurred claims	85,315	77,205	619	821
Payments:				
Claims attributable to insured events of the current year	(71,802)	(70,299)	(1,061)	(819)
Claims attributable to insured events of prior years	(12,671)	(6,426)	(3,670)	(5,232)
Total payments	(84,473)	(76,725)	(4,731)	(6,051)
Total claims liability at end of each fiscal year	\$ 12,517	\$ 11,675	\$16,216	\$20,328

## NOTE 9. COMMITMENTS

### A. Highway Construction

At June 30, 2006, the Department of Transportation had contractual commitments of approximately \$207.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

### B. Capital Construction

At June 30, 2006, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$42.2 million for capital projects construction. The primary government will fund \$16.5 million of these projects, with the remaining \$25.7 million coming from the state university system.

### C. Coal Tax Loan and Mortgage Commitments

The Board of Investments (BOI) makes firm commitments to fund loans from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to the BOI's policies. As of June 30, 2006, the BOI had committed but not yet purchased \$76,503,977 in loans from Montana lenders. In addition to the above commitments, lenders had reserved \$55,143,007 for loans as of June 30, 2006.

The BOI makes reservations to fund mortgages from the Public Employees and Teachers retirement funds. As of June 30, 2006, the BOI had mortgage reservations/commitments totaling \$1,478,884. Effective December 1, 2005, all BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

### D. Proprietary Fund Commitments

Budgets are administratively established in the enterprise and internal service funds, excluding depreciation, compensated absences, and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unrestricted net assets in the accompanying financial statements as follows (in thousands):

	<u>Amount</u>
<b><u>Enterprise funds</u></b>	
Liquor Warehouse	\$ 99
Historical Society Publications	20
Hail Insurance	3
Subtotal-enterprise funds	<u>\$ 122</u>
<b><u>Internal service funds</u></b>	
Info Tech Services Division	\$1,212
Buildings and Grounds	620
DEQ Indirect Cost Pool	213
FWP Equipment	41
Admin Supply	24
Employee Group Benefits	4
Payroll Processing	2
Subtotal-internal service funds	<u>\$2,116</u>
Total	<u>\$2,238</u>

**NOTE 10. LEASES/INSTALLMENT PURCHASES PAYABLE**

The State has entered into various capital and operating leases for land, buildings, equipment, and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected, in the normal course of operations, that most of these leases will be replaced by similar leases.

**A. Capital Leases/Installment Purchases**

Obligations under capital leases/installment purchases at June 30, 2006, were as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units		
	Governmental Activities	Montana State University	University of Montana	Total
2007	\$1,031	\$32	\$284	\$316
2008	567	20	177	197
2009	296	11	154	165
2010	223	7	105	112
2011	320	-	26	26
2012-2016	326	-	-	-
Total minimum pmts	2,763	70	746	816
Less: interest	(304)	(10)	(110)	(120)
Present value of minimum payments	<u>\$2,459</u>	<u>\$60</u>	<u>\$636</u>	<u>\$696</u>

**B. Operating Leases**

Primary government rental payments for operating leases in fiscal year 2006 totaled \$14,410,000. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2007	\$13,834	\$ 1,959
2008	11,191	1,744
2009	10,245	1,518
2010	8,411	1,295
2011	7,574	697
2012-2016	26,050	3,362
2017-2021	8,136	1,339
2022-2026	1,835	-
Total future rental payments	<u>\$87,276</u>	<u>\$11,914</u>

**NOTE 11. STATE DEBT**
**A. General Information**

The State has no constitutional limit on its power to issue obligations or incur debt, other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State, and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

**B. Short-term Debt**

The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. No revenue anticipation notes were issued during fiscal year 2006.

The Board of Investments (BOI) of the State of Montana is authorized to issue Intermediate Term Capital (INTERCAP) bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than \$120 million as amended by the 2003 Legislature. The purpose of the bonds is to provide funds for the BOI to make loans to eligible government units. The bonds are limited obligations of the BOI, payable solely from repayments of principal and interest on loans made by the BOI to participating eligible governmental units, investment income under the indenture, and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and are included in short-term debt. The amounts issued and outstanding at June 30, 2006, were as follows (in thousands):

<b>Series</b>	<b>Amount Issued</b>	<b>Balance June 30, 2006</b>
1994	7,500	\$ 6,745
1995	7,500	6,915
1997	10,000	9,605
1998	12,500	12,200
2000	15,000	14,865
2003	15,000	14,815
2004	18,500	18,475
Total		<u>\$83,620</u>

The following schedule summarizes the activity relating to the demand bonds during the year ended June 30, 2006 (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Demand bonds	\$84,280	\$-	\$660	\$83,620

### C. Long-term Debt

The full faith, credit, and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees, and assets of the State and the various colleges and universities. Primary government bonds and notes outstanding at June 30, 2006, were as follows (in thousands):

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2006
				Fiscal Year 2007	In Year of Maturity (2)	
General obligation bonds						
Wastewater Treatment Works						
Revolving Fund (3)	1996C	\$ 2,765	3.75-5.75	\$ 1,765	1,765 (2007)	\$ 1,765
Renewable Resource Program (4)	1997A	2,000	6.8-8.0	435	435 (2007)	435
Long-Range Bldg Program	1997B	12,640	4.5-5.0	905	945 (2008)	1,850
Wastewater Treatment Works						
Revolving Fund (3)	1998A	3,510	3.75-5.15	150	260 (2019)	2,600
Long-Range Bldg Program	1998B	34,545	4.2-5.1	1,555	2,555 (2018)	24,060
Information Technology	1998C	41,390	4.5-5.0	3,905	4,075 (2008)	7,980
Long-Range Bldg Program Refunding	1998D	14,855	4.4-5.0	1,210	1,720 (2015)	12,895
Energy Conservation Program (5)	1998E	1,250	3.6-4.6	140	150 (2008)	290
Renewable Resource Program (4)	1999	1,035	6.0-6.5	65	105 (2015)	730
Long-Range Bldg Program	1999C	16,990	4.0-5.0	720	785 (2009)	2,255
Drinking Water Revolving Fund (3)	1998F	3,065	3.6-4.85	140	230 (2019)	2,335
Drinking Water Revolving Fund (3)	2000A	2,990	4.25-5.6	110	240 (2021)	2,500
Water Pollution Control Revolving Fund (3)	2000B	3,325	4.25-5.6	125	270 (2021)	2,785
Long-Range Bldg Program	2000C	17,195	5.0-5.55	650	800 (2011)	3,615
Long-Range Bldg Program	2001B	11,430	4.1-5.75	435	830 (2021)	9,060
Information Technology	2001C	1,600	3.85-4.2	155	185 (2011)	850
Energy Conservation Program (5)	2001D	1,250	3.85-4.2	120	145 (2011)	660
Renewable Resource Program (4)	2001E	1,040	5.2-6.8	55	105 (2017)	845
Drinking Water Revolving Fund (3)	2001G	3,190	4.0-5.0	125	235 (2022)	2,750
Water Pollution Control Revolving Fund (3)	2001H	2,690	4.0-5.0	105	200 (2022)	2,315
Long-Range Bldg Program	2002B	10,475	3.35-4.7	430	730 (2023)	9,290
Hard Rock Mining Reclamation	2002C	2,500	3.5-4.7	85	200 (2023)	2,270
Long-Range Bldg Program Refunding	2002D	15,805	2.5-3.7	1,325	1,685 (2014)	11,920
Long-Range Bldg Program	2003A	9,730	2.37-4.0	405	655 (2024)	9,010
Energy Conservation Program (5)	2003B	1,250	2.0-3.0	115	145 (2014)	1,030
Renewable Resource Program Refunding (4)	2003C	1,970	1.45-5.25	255	90 (2019)	1,120
Water Pollution Control Revolving Fund (3)	2003D	2,730	2.0-3.1	160	190 (2014)	1,385
Drinking Water Revolving Fund (3)	2003E	1,675	2.0-3.1	95	115 (2014)	840
Long-Range Bldg Program Refunding	2003G	26,610	2.0-5.0	2,000	2,310 (2017)	22,535
Information Technology Refunding	2003H	8,725	2.0-4.0	2,015	2,225 (2010)	8,470
Water Pollution Control Revolving Fund (3)	2004A	2,665	2.0-3.8	150	230 (2020)	2,540
Long-Range Bldg Program	2004B	3,125	3.0-4.75	160	170 (2025)	2,995
Long-Range Bldg Program Refunding	2005A	14,945	3.0-5.25	35	1,205 (2019)	14,945
Long-Range Bldg Program	2005B	1,670	3.25-4.3	45	120 (2026)	1,670
Energy Conservation Program (5)	2005C	2,500	3.25-4.0	200	290 (2016)	2,500
CERCLA Program (6)	2005D	2,000	3.25-4.3	55	140 (2026)	2,000
Drinking Water Revolving Fund (3)	2005F	3,875	4.0-4.75	160	350 (2021)	3,875
Water Pollution Control Revolving Fund (3)	2005G	2,110	4.0-4.75	90	190 (2021)	2,110
Long-Range Bldg Program Refunding	2005H	10,055	3.0-5.0	45	1,300 (2020)	9,935
Long-Range Bldg Program	2006A	31,350	4.0-5.0	-	1,930 (2027)	31,350
Energy Conservation Program (5)	2006B	3,750	4.0-6.0	-	330 (2022)	3,750
CERCLA Program (6)	2006C	1,000	4.0	-	120 (2017)	1,000
Renewable Resource Program (4)	2006D	950	5.6-6.0	-	90 (2022)	950
Total general obligation bonds		\$340,220		\$20,695		\$230,065

Governmental Activities	Series	Amount Issued	Interest Range (%) (1)	Principal Payments		Balance June 30, 2006
				Fiscal Year 2007	In Year of Maturity (2)	
<b>Special revenue bonds</b>						
State Hospital Project (7)	1997	\$ 25,915	4.0-5.05	\$ 880	1,820 (2022)	\$ 20,710
Renewable Resource Program (8)	1997A	1,205	6.0-7.3	50	110 (2018)	905
Renewable Resource Program (8)	1997B	2,660	3.75-5.37	115	210 (2018)	1,910
Renewable Resource Program (8)	2001A	420	3.65-5.59	15	30 (2021)	345
Renewable Resource Program (8)	2001B	1,750	5.2-7.1	60	150 (2021)	1,495
Renewable Resource Program Refunding (8)	2001C	12,155	2.55-4.3	-	790 (2013)	3,605
Broadwater Power Proj Refunding (8)	2001D	21,450	2.25-4.7	1,160	1,795 (2018)	17,245
Renewable Resource Program (8)	2001E	885	2.1-4.85	35	65 (2022)	755
Renewable Resource Program (8)	2001F	900	3.3-6.2	30	75 (2022)	790
Developmental Center Project Refunding (7)	2003	11,510	3.0-5.0	585	970 (2019)	9,855
Renewable Resource Program (8)	2003A	3,000	1.05-4.05	115	215 (2024)	2,780
Renewable Resource Program Refunding (8)	2004A	5,070	2.15-2.95	1,290	905 (2009)	3,130
Renewable Resource Program (8)	2004B	430	4.45-5.45	20	40 (2020)	410
U.S. Highway 93 GARVEES (9)	2005	122,795	3.65-5.19	6,130	11,315 (2020)	117,835
Total special revenue bonds		<u>\$210,145</u>		<u>\$10,485</u>		<u>\$181,770</u>
<b>Notes payable</b>						
Water Conservation (Little Dry Project) (10)		\$ 50	5.0	\$ 2	1 (2012)	\$ 14
Water Conservation (Petrolia Project) (10)		50	5.0	2	2 (2016)	22
Middle Creek Dam Project (11)		3,272	8.125	49	208 (2034)	2,791
Tongue River Dam Project (12)		11,300	-	290	290 (2038)	9,272
Total notes payable		<u>\$ 14,672</u>		<u>\$ 343</u>		<u>\$ 12,099</u>
Subtotal governmental activities, before deferred balances						
						423,934
Deferred amount on refunding						(5,709)
Unamortized discount						(145)
Unamortized premium						10,458
Total governmental activities		<u>\$565,037</u>		<u>\$31,523</u>		<u>\$428,538</u>
<b>Business-type Activities</b>						
<b>Bonds/notes payable</b>						
<u>Economic Development Bonds (13)</u>						
Municipal Finance Consolidation Act Bonds (Irrigation Program) (14)	1988	\$ 4,976	6.60-7.75	\$ 40	70 (2014)	\$ 430
Conservation Reserve Enhancement Program (CRP Bonds) (15)		3,028	6.0-7.50	898	108 (2011)	2,656
Subtotal economic dev bonds		<u>8,004</u>		<u>938</u>		<u>3,086</u>
MUS Workers Compensation Bonds Payable		2,050	2.8	420	430 (2008)	850
Total business-type activities		<u>\$ 10,054</u>		<u>\$ 1,358</u>		<u>\$ 3,936</u>

(1) The interest range is over the life of the obligation.

(2) Year of maturity refers to fiscal year.

(3) These bonds provide matching funds to enable the State to obtain capitalization grants from the U.S Environmental Protection Agency for water system development loans to state political subdivisions.

(4) The general obligation Renewable Resource Program Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. The bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.

(5) Bonds issued for financing the design, construction, and installation of energy conservation projects at various state buildings.

- (6) The CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) Program Bonds were issued for the purpose of financing the costs of State of Montana participation in the remedial actions under Section 104 of the CERCLA 42 United States Code Sections 9601-9657, and State of Montana costs for maintenance of sites under CERCLA. The CERCLA Bonds are secured additionally by a pledge of monies received by the State as cost recovery payments and revenues derived from the resource indemnity and groundwater assessment tax in the event there are not sufficient cost recovery payments.
- (7) Facility Finance Authority loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (8) Issued by the Department of Natural Resources and Conservation and backed by a pledge of coal severance taxes and project revenues.
- (9) The U.S. Highway 93 GARVEES (Grant Anticipation Revenue Vehicles) Bonds were issued for the purpose of improving a 44.8-mile stretch of U.S. Highway 93. Repayment of the bonds is secured by a pledge of certain federal aid revenues.
- (10) Loans obtained from Farmers Home Administration for the purpose of acquiring an irrigation (pumping) system for water distribution in the vicinity of Sidney, Montana (Little Dry Project) and to rehabilitate the Petrolia Reservoir and Canal in the vicinity of Winnett, Montana (Petrolia Project). A portion of the revenues generated by the facilities is pledged for repayment of the loans. In the fiscal year 2004 CAFR, the Little Dry Project Loan was incorrectly listed as a special revenue bond and the Petrolia Project Loan was incorrectly excluded from the long-term debt reported.
- (11) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$220,927 of interest owed.
- (12) Northern Cheyenne Tribe loan to the Montana Department of Natural Resources & Conservation. The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Economic Development Bonds & Municipal Finance Consolidation Act Bonds – This program is directed by the Board of Investments, which is attached to the Department of Commerce for administrative purposes. The program assists Montana's small businesses and local governments in obtaining low-cost financing.
- (14) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds, and the interest thereon, are payable solely from the collection of a special tax or assessment, which is a lien against real property in the Irrigation District. The Irrigation Bonds are limited obligations of the Board of Investments, due to an irrevocable pledge to lend money for deposit by the trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein, on any payment date. The indenture does not permit the issuance of additional bonds.
- (15) The Conservation Reserve Enhancement Program is funded by the Montana Trust Funds Bond Pool.



**D. Debt Service Requirements**

Primary government debt service requirements at June 30, 2006, were as follows (in thousands):

**Governmental Activities**

Year Ended June 30	General Obligation Bonds		Special Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 20,695	\$ 8,647	\$ 10,485	\$ 8,569	\$ 343	\$ 46
2008	20,285	8,561	10,500	8,181	345	45
2009	16,400	7,802	11,575	7,696	347	44
2010	16,970	7,154	11,120	7,194	349	43
2011	14,960	6,539	11,675	6,693	351	42
2012-2016	76,195	23,051	64,550	24,860	1,799	193
2017-2021	47,760	8,412	59,290	8,054	1,893	160
2022-2026	14,870	1,883	2,575	133	1,995	121
2027-2031	1,930	45	-	-	2,127	72
2032-2036	-	-	-	-	1,970	14
2037-2041	-	-	-	-	580	-
Total	\$230,065	\$72,094	\$181,770	\$71,380	\$12,099	\$780

**Business-type Activities**

Year Ended June 30	Economic Development Bonds		MUS Workers Compensation Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 938	\$197	\$420	\$24
2008	977	138	430	12
2009	533	76	-	-
2010	280	42	-	-
2011	163	24	-	-
2012-2016	195	24	-	-
Total	\$3,086	\$501	\$850	\$36

Debt service requirements of discretely presented component units at June 30, 2006, were as follows (in thousands):

Year Ended June 30	Housing Authority		Montana State University		University of Montana	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 10,650	\$ 39,975	\$ 4,292	\$ 4,895	\$ 5,492	\$ 7,038
2008	12,430	39,620	3,793	5,959	6,033	7,082
2009	13,725	39,094	3,542	6,133	5,919	6,884
2010	14,020	38,510	3,788	6,121	5,790	6,667
2011	14,765	37,883	3,669	6,097	5,619	6,431
2011-2016	89,108	178,175	27,047	21,438	31,873	28,263
2017-2021	112,175	154,295	34,650	13,148	39,715	19,901
2022-2026	151,155	121,333	19,235	6,905	40,990	8,263
2027-2031	189,185	76,593	11,245	3,918	10,690	1,829
2032-2036	154,075	29,019	12,600	1,460	2,140	150
2037-2041	29,900	4,644	-	-	-	-
2042-2046	6,665	419	-	-	-	-
Total	\$797,853	\$759,560	\$123,861	\$76,074	\$154,261	\$92,508

**E. Summary of Changes in Long-term Liabilities Payable**

Primary government long-term liability activity for the year ended June 30, 2006, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<b><u>Governmental activities</u></b>						
Bonds/notes payable						
General obligation bonds	\$213,195	\$ 37,050	\$ 20,180	\$230,065	\$20,695	\$209,370
Special revenue bonds	192,775	-	11,005	181,770	10,485	171,285
Notes payable	12,439	-	340	12,099	343	11,756
	418,409	37,050	31,525	423,934	31,523	392,411
Deferred amount on refunding	(6,322)	-	(613)	(5,709)	-	(5,709)
Unamortized discount	(158)	-	(13)	(145)	-	(145)
Unamortized premium	9,680	1,126	348	10,458	-	10,458
Total bonds/notes payable	421,609	38,176	31,247	428,538	31,523	397,015
Other liabilities						
Lease/installment purchase payable	2,705	881	1,127	2,459	879	1,580
Compensated absences payable (1)	73,403	48,619	42,897	79,125	42,891	36,234
Early retirement benefits payable (1)	54	-	5	49	6	43
Arbitrage rebate tax payable (1)	53	21	-	74	-	74
Estimated insurance claims (1)	32,003	85,934	89,204	28,733	12,665	16,068
Total other liabilities	108,218	135,455	133,233	110,440	56,441	53,999
Total governmental activities						
Long-term liabilities	\$529,827	\$173,631	\$164,480	\$538,978	\$87,964	\$451,014
<b><u>Business-type activities</u></b>						
Bonds/notes payable						
Economic Development Bonds	\$ 3,908	\$ 1,103	\$ 1,925	\$ 3,086	\$ 938	\$ 2,148
MUS Workers Compensation	1,260	-	410	850	420	430
Total bonds/notes payable	5,168	1,103	2,335	3,936	1,358	2,578
Other liabilities						
Compensated absences payable	1,145	693	609	1,229	607	622
Arbitrage rebate tax payable	114	22	7	129	35	94
Estimated insurance claims	10,613	54,748	51,502	13,859	7,387	6,472
Total other liabilities	11,872	55,463	52,118	15,217	8,029	7,188
Total business-type activities						
Long-term liabilities	\$ 17,040	\$ 56,566	\$ 54,453	\$ 19,153	\$ 9,387	\$ 9,766

- (1) The compensated absences liability attributable to the governmental activities will be liquidated by several of the governmental and internal service funds. The early retirement benefits payable will be liquidated by the general, state special revenue, and federal special revenue funds. The arbitrage rebate tax payable will be liquidated by debt service funds. The Employee Group Benefits and Administration Insurance internal service funds will liquidate the estimated insurance claims liability.

Long-term liability activity of discretely presented component units for the year ended June 30, 2006, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due In More Than One Year
<b>Discretely presented component units</b>						
Bonds/notes payable						
Housing Authority	\$ 765,214	\$154,450	\$116,529	\$ 803,135	\$ 10,650	\$ 792,485
Montana State University (MSU)	107,550	26,150	4,463	129,237	4,292	124,945
University of Montana (UM)	136,806	31,431	16,638	151,599	5,492	146,107
Total bonds/notes payable	1,009,570	212,031	137,630	1,083,971	20,434	1,063,537
Other liabilities						
Lease/installment purch pay	540	498	342	696	261	435
Compensated absences pay	44,757	24,385	22,192	46,950	21,077	25,873
Arbitrage rebate tax payable	1,262	300	421	1,141	314	827
Estimated insurance claims	590,666	205,837	132,079	664,424	137,070	527,354
Due to federal government	30,606	429	-	31,035	-	31,035
Total other liabilities	667,831	231,449	155,034	744,246	158,722	585,524
	<u>\$1,677,401</u>	<u>\$443,480</u>	<u>\$292,664</u>	<u>\$1,828,217</u>	<u>\$179,156</u>	<u>\$1,649,061</u>
Long-term liabilities of MSU component units					448	1,130
Long-term liabilities of UM component units					469	245
Total discretely presented component units						
Long-term liabilities					<u>\$180,073</u>	<u>\$1,650,436</u>

## F. Refunded and Early Retired Debt

### Primary Government

#### Pre-payments

During fiscal year 2006, the Department of Natural Resources and Conservation (DNRC) used current available resources to make the following pre-payments on general obligation bonds: \$440,000 of Series 1997A Renewable Resource Program, \$1,045,000 of Series 2003D Water Pollution Control Revolving Fund Program, and \$650,000 of Series 2003E Drinking Water Revolving Fund Program.

DNRC also used current available resources to make a \$500,000 pre-payment of special revenue bond Series 2004A Renewable Resource Program Refunding.

#### Defeased Debt Outstanding

The State of Montana has defeased certain general obligation and special revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2006, \$58,245,000 of bonds outstanding are considered defeased.

### Discretely Presented Component Units

#### Current Refundings

The Housing Authority, on November 16, 2005, issued Series 2005RA Single Family Mortgage Bonds in the

amount of \$30,280,000. \$29,120,000 of the proceeds were used for a replacement refunding of the Series 1995B Bonds on December 1, 2005. The refunding resulted in a reduction of debt service to maturity of \$3,328,826 and an economic gain of \$6,274,029.

#### Defeased Debt Outstanding

Montana State University and the University of Montana have defeased certain bond issues by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2006, \$3,415,000 and \$54,277,074 of bonds outstanding are considered defeased for Montana State University and the University of Montana, respectively.

## G. No-Commitment Debt

Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

### Primary Government

#### Montana Board of Investments (BOI)

Under the Economic Development Act, the BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues

of the borrower are pledged to repay the bonds. At June 30, 2006, industrial revenue bonds outstanding aggregated \$200.5 million.

The BOI is also authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act. The revenues, and in some cases, the taxing power of the borrower are pledged to repay the bonds. At June 30, 2006, QZAB debt outstanding aggregated \$5.8 million.

Neither the industrial revenue bonds, nor the QZAB debt issued by the BOI constitutes a debt, liability, obligation, or pledge of faith and credit of the State of Montana.

#### Beginning Farm Loan Program

The Montana Department of Agriculture is authorized to request issuance of bonds by the BOI to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2006, was as follows: Hershberger Project – issued \$129,412, outstanding \$118,844; Young Project – issued \$223,300, outstanding \$209,051.

#### **Discretely Presented Component Units**

##### Facility Finance Authority (FFA)

The FFA is authorized to issue bonds and notes to finance projects for qualifying health care and other community-based service providers. The revenue bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements, and further, from the funds created by the indentures and investment earnings thereon. The notes are payable solely from loan repayments pursuant to loan agreements. The revenue bonds and notes payable issued by the FFA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2006, revenue bonds outstanding aggregated \$643 million, and notes payable outstanding aggregated \$8 million.

The BOI and the FFA have entered into a capital reserve account agreement for certain bond issues. See Note 16.C. (miscellaneous contingencies) for more information.

##### Housing Authority (HA)

The HA is authorized to issue bonds and make mortgage loans in order to finance housing which will provide decent, safe, and sanitary housing for persons and families of lower income in the State of Montana. The bonds are special, limited obligations, payable solely from pledged revenues and assets, not general obligations of the HA. The bonds issued by the HA do not constitute a debt, liability, obligation, or pledge of faith and credit of the State of Montana. At June 30, 2006, bonds outstanding aggregated \$3 million.

**NOTE 12. INTERFUND BALANCES AND TRANSFERS****A. Balances Due From/To Other Funds**

Balances due from/to other funds arise when there is a time lag between the dates that reimbursable expenditures and interfund services provided/used are recorded in the accounting system, and the dates on which payments are made. Balances also arise when there is a time lag between the dates that transfers between funds are recorded, and the dates on which payments are made. Balances due from/to other funds also includes the current portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program. Balances due from/to other funds are expected to be repaid within one year from the date of the financial statements.

Balances due from/to other funds at June 30, 2006, consisted of the following (in thousands):

	Due To Other Funds					
	Coal Severance Tax Permanent	Economic Development Bonds	Federal Special Revenue	General Fund	Internal Service Funds	Land Grant Permanent
<b>Due From Other Funds</b>						
Economic Development Bonds	\$ -	\$ -	\$ -	\$ -	\$2,320	\$ -
Federal Special Revenue	-	-	-	137	5	-
General Fund	6,070	1	1,471	-	176	-
Internal Service Funds	33	3	1,185	1,884	667	-
Nonmajor Enterprise Funds	-	-	55	138	12	-
Nonmajor Governmental Funds	-	-	7	2	9	-
State Special Revenue	141	-	1,053	4,799	109	3,621
<b>Total</b>	<b>\$6,244</b>	<b>\$4</b>	<b>\$3,771</b>	<b>\$6,960</b>	<b>\$3,298</b>	<b>\$3,621</b>

	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	Total
<b>Due From Other Funds (continued)</b>				
Economic Development Bonds	\$ -	\$ -	\$ 1,864	\$4,184
Federal Special Revenue	-	-	662	804
General Fund	12,627	646	42,015	63,006
Internal Service Funds	176	3	2,121	6,072
Nonmajor Enterprise Funds	-	-	34	239
Nonmajor Governmental Funds	-	-	76	94
State Special Revenue	46	1,360	-	11,129
<b>Total</b>	<b>\$12,849</b>	<b>\$2,009</b>	<b>\$46,772</b>	<b>\$85,528</b>

**B. Interfund Loans Receivable/Payable**

Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. Interfund loans receivable/payable are expected to be repaid within one year from the date of the financial statements.

Interfund loans receivable/payable at June 30, 2006, consisted of the following (in thousands):

	Interfund Loans Payable					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	State Special Revenue	
<b>Interfund Loans Receivable</b>						
Federal Special Revenue	\$ -	\$ 302	\$ -	\$ -	\$ 604	\$ 906
General Fund	18,268	3,300	-	1,361	6,115	29,044
Internal Service Funds	74	-	225	-	10	309
Nonmajor Enterprise Funds	4	-	-	-	-	4
State Special Revenue	20,889	2,000	33	-	-	22,922
Total	\$39,235	\$5,602	\$258	\$1,361	\$6,729	\$53,185

**C. Advances To/From Other Funds**

Advances to/from other funds represents the portion of interfund loans that are not expected to be repaid within one year from the date of the financial statements. Advances to/from other funds also includes the noncurrent portion of balances related to amounts loaned by the Economic Development Bonds Fund to other funds, under the Board of Investments INTERCAP loan program.

Advances to/from other funds at June 30, 2006, consisted of the following (in thousands):

	Advances from Other Funds					Total
	Federal Special Revenue	Internal Service Funds	Nonmajor Governmental Funds	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	
<b>Advances to Other Funds</b>						
Coal Severance Tax Permanent	\$ -	\$ -	\$ -	\$-	\$33,477	\$33,477
Economic Development Bonds	-	4,452	-	-	11,679	16,131
General Fund	9	-	-	-	60	69
Nonmajor Enterprise Funds	75	-	-	-	-	75
Nonmajor Governmental Funds	-	-	-	-	3,110	3,110
State Special Revenue	1,668	-	12,701	-	-	14,369
Total	\$1,752	\$4,452	\$12,701	\$-	\$48,326	\$67,231

Additional detail for certain advance balances at June 30, 2006, follows (in thousands):

Advances from the Economic Development Bonds Fund under the INTERCAP Loan Program	
Department	Balance
Environmental Quality	\$ 664
Justice	11,015
Transportation	4,453
Total	\$16,132

Advances from the Coal Severance Tax Permanent Fund	
Department	Balance
Justice	\$ 2,112
Natural Resources and Conservation	31,365
Total	\$33,477

# D. Interfund Transfers

Routine transfers between funds are recorded to: (1) transfer revenues from the fund legally required to receive the revenue to the fund authorized to expend the revenue, (2) transfer resources from the General Fund and special revenue funds to debt service funds to support principal and interest payments, (3) transfer resources from enterprise funds to the General Fund to finance general government expenditures, and (4) provide operating subsidies.

For the fiscal year 2006, there was a transfer transaction where one side was reported on the fund financial statements and the other side was reflected on the entitywide financial statements. This occurred because modified accrual and full accrual funds transferred capital assets or long-term liabilities between each other. This caused the transfers to be unbalanced on the fund financial statements by \$25,081 in the nonmajor enterprise fund transfers out category; however, the transfers were balanced on the entitywide statements.

Interfund transfers for the year ended June 30, 2006, consisted of the following (in thousands):

	Transfers In					
	Coal Severance Tax Permanent	Federal Special Revenue	General Fund	Internal Service Funds	Nonmajor Enterprise Funds	Nonmajor Governmental Funds
<b>Transfers Out</b>						
Coal Severance Tax Permanent	\$ -	\$ -	\$31,106	\$ -	\$ -	\$ 417
Federal Special Revenue	-	-	-	28	-	14,909
General Fund	-	3	-	824	51	32,253
Internal Service Funds	-	-	48	382	-	-
Land Grant Permanent	-	-	-	-	-	1,590
Nonmajor Enterprise Funds	-	-	29,887	-	-	-
Nonmajor Governmental Funds	1,150	-	-	500	-	3,007
State Special Revenue	2,256	1,284	6,614	596	27	11,568
Unemployment Insurance	-	558	-	-	-	-
<b>Total</b>	<b>\$3,406</b>	<b>\$1,845</b>	<b>\$67,655</b>	<b>\$2,330</b>	<b>\$78</b>	<b>\$63,744</b>

	Pension (And Other Employee Benefit) Trust Funds	State Special Revenue	Total
<b>Transfers Out (continued)</b>			
Coal Severance Tax Permanent	\$ -	\$ 9,234	\$ 40,757
Federal Special Revenue	-	15,757	30,694
General Fund	-	17,597	50,728
Internal Service Funds	232	-	662
Land Grant Permanent	-	91,973	93,563
Nonmajor Enterprise Funds	-	4,416	34,303
Nonmajor Governmental Funds	-	16,261	20,918
State Special Revenue	-	242	22,587
Unemployment Insurance	-	-	558
<b>Total</b>	<b>\$232</b>	<b>\$155,480</b>	<b>\$294,770</b>

**NOTE 13. FUND DEFICITS**

The following funds have a deficit fund balance/net assets position at June 30, 2006, (in thousands):

<b>Fund Type/Fund</b>	<b>Deficit</b>
<b><u>Enterprise funds</u></b>	
Subsequent Injury	\$(1,442)
State Nursery	\$ (12)
<b><u>Internal service funds</u></b>	
Justice Legal Services	\$ (40)

**NOTE 14. RESERVED FUND BALANCES**

Special Revenue Funds – The State and Federal Special Revenue Funds reserved fund balances are for the following purposes (in thousands):

<b>Fund Type/Purpose</b>	<b>Amount</b>
<b><u>State Special Revenue funds</u></b>	
General Government	\$ 32,970
Public Safety/Corrections	184,340
Transportation	119,235
Health/Social Services	52,153
Education/Cultural	5,725
Resource/Recreation/Environment	289,746
Economic Development/Assistance	39,992
Total state special revenue funds	<u>\$724,161</u>
<b><u>Federal Special Revenue funds</u></b>	
General Government	\$ 7,107
Public Safety/Corrections	292
Health/Social Services	2,451
Education/Cultural	14,237
Resource/Recreation/Environment	3,591
Economic Development/Assistance	364
Total federal special revenue funds	<u>\$28,042</u>

Coal Severance Tax Permanent Trust Fund – The reserve for trust principal is comprised of the following (in thousands):

<b>Purpose</b>	<b>Amount</b>
Big Sky Economic Development Fund	\$ 22,510
Coal Severance Tax Bond Fund	10,374
Treasure State Endowment Fund	143,843
Treasure State Endowment Regional Water System Fund	29,872
Coal Severance Tax Permanent Fund	490,220
Coal Severance Tax Income Fund	(711)
Total	<u>\$696,108</u>

**NOTE 15. RELATED PARTY TRANSACTIONS**

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation and by the Student Assistance Foundation of Montana (SAF) and subsidiaries. The Board of Regents and MHESAC have three common board members. Approximately 75.74% of the Regents' outstanding loan volume, or \$1,241,985,089 is held by either MHESAC or SAF and subsidiaries. During fiscal year 2000, MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana, and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have three common board members. The Office of Commissioner of Higher Education (OCHE) paid SAF during fiscal year 2006 for its share of various costs, such as personnel costs for employees of SAF who performed services that were of direct benefit to the State, equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2006 amounted to \$417,406.

A staff member in the Department of Administration, Personnel Division, serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this association \$1 per member per year to maintain its membership as well as a monthly fee of \$3 on behalf of each employee who participates in a managed care plan. These fees are payment for data analysis, actuarial analysis, and consulting services performed by association staff on behalf of member employers.



## NOTE 16. CONTINGENCIES

## A. Litigation

The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

In State of Montana v. Philip Morris, Inc., No. CDV 97-306 (Mont. 1<sup>st</sup> Jud. Dist. Lewis & Clark County), the State of Montana filed various claims against six tobacco manufacturers seeking recovery of an unspecified amount of damages, penalties and attorney's fees. The lawsuit was resolved eventually through two settlements. The State first settled its claims against one of the manufacturers, Liggett & Meyers, Inc., for \$1 million to be paid over a 20-year period. It next settled its claims against the remaining manufacturers in November 1998 for a base settlement amount of \$832 million payable over 26 years. The base amount was augmented by \$90 million in 1999, with the additional amount to be paid in equal installments over a 10-year period beginning in 2007.

The settlement provides that the cigarette manufacturers may offset against their payment in any year certain amounts of money if it is found that the original settling manufacturers (known as OPMs) have lost more than 2% of their market share to non-settling manufacturers (known as NPMs) and that the disadvantages imposed by the settlement were a "significant factor" in the market share loss. The settlement further provides that the offset, known as the "NPM adjustment" may not be taken against the payments to any state that has enacted a "qualifying statute" and diligently enforced the statute during the year in question. Montana enacted such a qualifying statute in 1999, Title 16, Chapter 11, Parts 401 – 404, MCA.

In March 2006, a determination was made pursuant to the settlement that the OPMs had lost sufficient market share in 2003 to trigger an NPM adjustment analysis, and that disadvantages caused by the settlement were a significant factor in the market share loss. The State has filed a motion in the lawsuit seeking a declaration that it diligently enforced its qualifying statute during 2003. The OPMs have moved to compel arbitration of the question, which motion is pending in the court. In the opinion of the counsel good factual arguments exist to show that the State diligently enforced its statute during the year in question. However, legal and procedural uncertainties exist that make an adverse determination reasonably possible. An adverse determination on the diligent enforcement issue could result in the loss of some or all of the State's 2003 payment which would

be recouped through an offset of payments due in future years. At present, the NPM case involves roughly \$1.8 million that was withheld from the April 2006 payment to the State. At this time, the State of Montana would not have an additional payment in relation to the NPM adjustment case, but more potential NPM adjustment issues may arise.

This settlement has also formed the basis for other lawsuits against the state. On July 1, 2002, a group of cigarette manufacturers and marketers filed suit against the Attorneys General of 31 states, including Montana, in the United States District Court for the Southern District of New York, seeking a declaration that the provisions of Title 16, Chapter 11, Part 4, MCA, violate several provisions of the United States Constitution, and seeking injunctive relief against the enforcement of the statutes. Grand River Enterprises Six Nations, Ltd., v. Pryor et al., Docket No. 02 CV 5068 (U.S. Dist. Ct., S.D.N.Y.). An adverse outcome could threaten the ability of the State to continue to receive payments from the tobacco companies under the settlement of the Mazurek case discussed above. The potential loss to the Treasury could amount to \$30-35 million annually. The federal district court had dismissed the complaint, but the United States Court of Appeals for the Second Circuit has reversed the trial court and remanded one of the claims for further proceedings. The United States Supreme Court has denied review, and the case has been remanded for further proceedings. In the opinion of counsel, good defenses exist to the claims, and an adverse result impairing or preventing receipt of the State's payment is possible, but unlikely.

In September 2002, a coalition of school districts, teachers, and parents filed an action, Columbia Falls Elementary School District v. State of Montana, No. BDV-2002-528 (Mont. 1<sup>st</sup> Jud. Dist. Lewis & Clark County), that alleges that Montana's system for funding public education violates the requirements of the Montana Constitution. The complaint seeks a declaratory judgment that the system violates the Montana Constitution and declaratory and injunctive relief compelling the State to (1) study and determine the components of free quality public elementary and secondary education and the costs of delivering such education; (2) implement a funding system based on educationally relevant factors; (3) fully fund and equitably distribute the State's share of the costs of public elementary and secondary education; (4) include a cost adjustment factoring the funding system; and (5) establish a mechanism for monitoring and adjusting the funding system and an award of attorney's fees. The court denied the State's motion for summary judgment.

The district court sat for the trial in this case from January 20, 2004 through February 4, 2004. Both parties submitted witness, exhibits, and cross-examined witnesses. On April 15, 2004, the court entered its order holding the school funding system unconstitutional. The State appealed the judgment, and the plaintiffs have cross-appealed certain aspects of the judgment as well. The Supreme Court heard oral argument on the appeal and cross-appeal on October 20, 2004, and the Montana Supreme Court has issued an order that the school funding system violates the Montana Constitution, and has upheld the District order that the State had until October 2005 to address this issue. The State and the plaintiffs have settled the plaintiffs' attorney fee in the amount of \$499,732. The parties have agreed to submit that claim for funding by the Montana legislature. Significant additional expenditures on K-12 education may be required in future years, and further litigation in this case is possible regarding school funding.

Beginning in February 2001, the Montana Department of Fish Wildlife and Parks became the defendant in a number of lawsuits challenging the constitutionality and enforcement of Initiative Measure 143, which banned the issuance of new licenses for game farms in Montana, prohibiting the transfer of existing licenses, and prohibited game farm licenses from allowing the shooting of game farm animals on a game farm for a fee or other remuneration. Most of these cases sought declaratory and injunctive relief, but several cases are now pending in which game farmers have alleged that I-143 takes their property without just compensation in violation of the state and federal constitutions, and in which they seek damages from the State for the alleged uncompensated taking. The State believes valid defenses exist to the claims asserted in these cases. One of the cases, Spoklie v. State of Montana, U.S. District Ct., D. Mont. Docket No. CV-02-102-GF-SHE, has been dismissed in its entirety, and the dismissal has now been affirmed by the Ninth Circuit of Appeals. In a second case, Kafka v. Montana Department of Fish Wildlife, and Parks, Hill County Docket No. DV-02-059, the state district court has denied the taking claim and entered final judgment in favor of the State. In Buhlmann et al. v. State of Montana et al., Lewis and Clark Docket No. DV-2002-555, the court has entered judgment in favor of the State on the taking claims, and appeal has been taken to the Montana Supreme Court. Both the Kafka and Buhlman decisions are on appeal before the Montana Supreme Court. Royal Tine Ranch v. State, Flathead County Docket No. DV-02-606C, is submitted on cross-motions for summary judgment. Wallace v. State of Montana, Ravalli County Docket No. 02-254, has been dismissed without prejudice, and the Bowman v. Montana Fish, Wildlife and Parks, Fergus County Docket No. DV-2002-02, case has been dismissed without prejudice for failure to prosecute. Spoklie v. Montana Department of Fish, Wildlife and

Parks, Sheridan County Docket No. 11013, Mesaros v. Department of Fish, Wildlife and Parks, Cascade County Docket No. BDV 03-0119, are in varying stages of pretrial preparation. Based on the courts' treatment of the cases thus far, in the opinion of counsel, good defenses exist to all of these claims, although adverse decisions remain possible. The amount of loss cannot be estimated at this time.

In Montana Association for Independent Disability Service, Inc., et al., filed in Montana First Judicial Court, Lewis and Clark County, Cause No. BDV 2002-558, (MAIDS) a class action lawsuit was filed on the part of individually-named developmentally disabled persons and the Montana Association for Independent Disability Services, Inc., a consortium of community-based private facilities serving the developmentally disabled population. The plaintiffs allege that the named defendants, Judy Martz, Gail Gray, and Joe Matthews in their official capacities "configure" the wage and benefit structure of employees at community-based facilities serving developmentally disabled persons at a level that is lower than the level established at Eastmont and MDC. It is alleged that this causes employees to leave the community-based facilities at a higher rate, thereby jeopardizing the quality and quantity of the services provided in the community-based facilities. This allegedly has the effect of precluding individuals with developmental disabilities from living in the community in the least restrictive, most independent circumstances possible. The wage configuration by the defendants allegedly constitutes a violation of statutes concerning the objective of placing developmentally disabled individuals in independent living situations, the establishment of uniform reimbursement rates equivalent to Medicare covered services, the right to enjoy life, liberty, safety, health and happiness (Article II Section 3, Montana State Constitution), to dignity and equal protection (Article II Section 4, Montana State Constitution) and of the requirement of Article XII Section 3 that the State and legislature provide assistance to those in need. The plaintiffs seek declaratory and injunctive relief concerning the proper establishment of reimbursement rates, attorney's fees and costs. The Court entered an order on March 30, 2004, granting the motion for Class Certification. The Court has scheduled a five-week bench trial for May 15, 2007. The fiscal impact on the State should the plaintiffs prevail, and the amount of any potential award for attorney fees and costs is not determinable at this time. An adverse determination in this case is reasonably possible.

In Stavenjord v. State Compensation Insurance Fund, the first decision was issued by the Workers Compensation Court on May 22, 2001. It addressed the issue of whether the failure of the Occupational Disease Act (ODA) to provide PPD (permanent partial disability) benefits equivalent to the benefits provided

in the Montana WCA (workers compensation act) violates the claimant's right to equal protection of the law. Relying on the Henry case (previous case from the Supreme Court finding that vocational rehabilitation benefits must also be paid under the ODA), the court held that Title 39, Chapter 72, Part 405, MCA, is unconstitutional as applied to Debra Stavenjard. "Where PPD benefits calculated pursuant to the WCA are greater than the benefits available to a claimant under the ODA, constitutional equal protection guarantees require that benefits be computed and paid in accordance with the WCA. The claimant in this case is entitled to \$27,027 under the WCA, versus \$10,000 under the ODA." The Montana Supreme Court affirmed the case on April 1, 2003. On August 27, 2004, the Workers Compensation Court held that Stavenjard is retroactive to June 3, 1999 (the date of the Henry decision). The court held that a common fund is created for claimants reaching Maximum Medical Improvement on or after June 3, 1999. The cost of retroactively paying benefits for claims in the period of June 3, 1999 through May 21, 2001 was estimated at \$2.2 million and was recorded in the loss reserves of the financial statements. There is no impact on the Old Fund liability with this ruling. This decision was appealed to the Montana Supreme Court.

The Montana Supreme Court issued their decision on the appeal on October 6, 2006, holding that a common fund was not created. The court also held that the decision applies retroactively to claims from July 1, 1987. The cost to retroactively pay claims to July 1, 1987, was estimated at \$14 to \$19 million for the Montana State Fund (New Fund – for claims on or after July 1, 1990). The impact on the Old Fund liability for claims that occurred from July 1, 1987 to June 30, 1990 was estimated at \$5 to \$7 million. As the Supreme Court held that claims closed by either court order or settlement are excluded, and the cost estimates above included these claims, the estimates will be reduced. Revised cost estimates have not yet been completed. Actual cost impact is unknown.

In Reesor v. Montana State Fund, 2004 MT 370, Reesor was receiving Social Security retirement benefits at the time he suffered an industrial accident. He received an impairment award, but was denied other permanent partial disability (PPD) benefits pursuant to Title 39, Chapter 71, Part 710, MCA, which provides that persons who are receiving Social Security benefits or are eligible for full Social Security retirement benefits are ineligible for PPD benefits other than an impairment award. Reesor challenged the constitutionality of Title 39, Chapter 71, Part 710, MCA, on equal protection grounds and sought full PPD benefits. On July 26, 2003, the Workers Compensation Court found Title 39, Chapter 71, Part 710, MCA, to be constitutional. Reesor appealed to the Montana Supreme Court, where on December 22, 2004, the court held that limiting

Reesor's permanent partial benefit pursuant to Title 39, Chapter 71, Part 710, MCA, violated the Equal Protection Clause of the Montana Constitution. Pending before the Workers Compensation Court are the retroactive application of the decision and common fund status. MSF has estimated the cost of benefits associated with a retroactive application of Reesor. MSF's estimate did not include claims with entitlement dates occurring on or after July 1, 1991 through June 30, 1995 because the Russette decision appears to make Reesor inapplicable during that timeframe. Excluding the Russette timeframe, for claims arising on or after July 1, 1990 through December 22, 2004, the increase in benefit costs for MSF is estimated at \$2 million. For claims arising on or after July 1, 1987 through June 30, 1990, the retroactive application of Reesor will result in an estimated benefit cost increase of \$1 million for the Old Fund. The potential for the litigation to create a liability for MSF and the State of Montana is reasonably possible. Actual cost impact should the decision be applied retroactively is unknown.

Satterlee v. Lumberman's Mutual Casualty Company et al., WCC No. 2003-0840, was filed before the Workers Compensation Court on July 18, 2003. The Satterlee vs. Lumberman's Mutual Casualty Company case challenges the constitutionality of State statute, (Title 39, Chapter 71, Part 710, MCA) passed by the Montana Legislature in 1981. That statute authorizes termination of permanent total disability benefits and rehabilitation benefits when a claimant receives or becomes eligible to receive full Social Security retirement benefits or an alternative to that plan. Should the statute be found to be unconstitutional as applied to permanent total disability benefits, Satterlee, et al. request payment of lifetime permanent total disability benefits. In addition, the petition requests certification of this case as a class action or the establishment of a common fund for similarly situated claimants. Petitioners filed a motion and brief for summary judgment on the constitutional issue. The Workers Compensation Court provided an opportunity for any workers compensation insurer to intervene until June 6, 2005. The Workers Compensation Court rendered its decision on December 12, 2005, holding that Title 39, Chapter 71, Part 710, MCA, is constitutional as applied on PTD benefits. This case was appealed to the Supreme Court on December 1, 2006. Should Title 39, Chapter 71, Part 710, MCA, ultimately be held to be unconstitutional as applied to permanent total disability benefits by the Workers Compensation Court and/or the Montana Supreme Court, and also found to apply retroactively, the cost impact has been estimated for non-settled claims arising on or after July 1, 1990 through December 22, 2004 at \$135 million to \$186 million. The estimated cost of retroactively applying the decision to the Old Fund, for non-settled permanent total disability claims that occurred before July 1, 1990, is \$93 million to \$116 million. The potential for liability for MSF and the

State of Montana is reasonably possible. Actual cost impact is unknown.

## B. Federal Contingencies

USDA Commodities – In fiscal year 2006, the State distributed \$4,456,233 in commodities. The value of the commodities stored in the State's warehouses was \$1,767,147 at June 30, 2006, for which the State is liable in the event of loss.

Gain Contingencies – Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2006, the following assessments (by fund type) were outstanding (in thousands):

<b>Taxes</b>	<b>General</b>	<b>State Special Revenue</b>	<b>Permanent Trust</b>	<b>Debt Service</b>	<b>Capital Projects</b>
Coal severance	\$ 563	\$ 176	\$1,091	\$20	\$252
Oil & gas	11,103	1,204	-	-	-
Corporation tax	5,621	-	-	-	-
<b>Total</b>	<b>\$17,287</b>	<b>\$1,380</b>	<b>\$1,091</b>	<b>\$20</b>	<b>\$252</b>

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies – Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2006. The corporations have appealed the decision. As of June 30, 2006, these include \$20,131,109 of General Fund corporation tax refunds.

## C. Miscellaneous Contingencies

Loan Guarantees – As of June 30, 2006, the Board of Investments (BOI) had provided loan guarantees from the Coal Severance Tax Permanent Trust Fund to the Economic Development Bonds Enterprise Fund and the Facility Finance Authority, (a component unit of the State of Montana), totaling \$131,280,309. The BOI's exposure to bond issues of the Economic Development Bonds Enterprise Fund was \$84,050,000, while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority was \$47,230,309.

Certain companies have protested property taxes that have been included as revenue on the State's financial statements as of June 30, 2006. As of June 30, 2006, these include \$4,683,535 of protested General Fund property taxes.

**NOTE 17. SUBSEQUENT EVENTS****Bond/Loan Issues**

In July 2006, Montana State University issued its Series K refunding debt in the principal amount of \$13.71 million. The proceeds were used to refund portions of the Series E 1998 and Series D 1996 debt.

On July 13, 2006, the Montana Facility Finance Authority issued a bond in the amount of \$7,920,000 for Alternatives, Inc. Proceeds were used to purchase a Howard Johnson Express Inn and remodel it into a women's prerelease facility plus other program services.

On August 9, 2006, the Montana Facility Finance Authority issued two bonds in the amount of \$14,335,000 to finance the construction of methamphetamine treatment facilities

On August 17, 2006, the Montana Facility Finance Authority issued a bond in the amount of \$30,410,000 for St. John's Lutheran Ministries.

On September 20, 2006, the Montana Housing Authority issued \$70,805,000 of Single Family Mortgage Bonds Series 2006C to finance the purchase of eligible single family mortgage loans.

On September 26, 2006, the Department of Natural Resources and Conservation issued \$1,800,000 of General Obligation Taxable Bonds Series 2006E for its private loan program.

A loan in the amount of \$6,100,000 was made from the Montana Facility Finance Authority Variable Rate Program to Bozeman Deaconess Health Services on October 5, 2006, to finance the purchase of equipment.

**NOTE 18. MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS****Constitutionality of Retirement Plan Funding**

The Montana Constitution, Article VIII, Section 15 states that public retirement plans shall be funded on an actuarially sound basis. As of June 30, 2006, there were four retirement plans not in compliance: the Teachers Retirement System (TRS), the Public Employees Retirement System (PERS) Defined Benefit Retirement Plan, the Sheriffs Retirement System, and the Game Wardens and Peace Officers Retirement System. Detailed information for each plan can be found in Note 6.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL AND MAJOR SPECIAL REVENUE FUNDS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
 (amounts expressed in thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES</b>				
Licenses/permits	\$ 128,669	\$ 128,669	\$ 130,230	\$ 1,561
Taxes:				
Natural resource	113,112	113,112	109,692	(3,420)
Individual income	677,815	677,815	698,686	20,871
Corporate income	91,427	91,427	150,802	59,375
Property	177,311	177,311	181,722	4,411
Fuel	-	-	-	-
Other	210,076	210,076	210,346	270
Charges for services/fines/forfeits/settlements	39,645	39,645	40,465	820
Investment earnings	13,909	13,909	19,494	5,585
Sale of documents/merchandise/property	396	396	374	(22)
Rentals/leases/royalties	57	57	22	(35)
Contributions/premiums	-	-	-	-
Grants/contracts/donations	3,560	3,560	2,875	(685)
Federal	26,919	26,919	30,968	4,049
Federal indirect cost recoveries	120	120	78	(42)
Other revenues	-	-	1,186	1,186
Total revenues	1,483,016	1,483,016	1,576,940	93,924
<b>EXPENDITURES</b>				
Current:				
General government	321,636	323,664	313,178	10,486
Public safety/corrections	149,417	159,560	157,609	1,951
Transportation	276	286	281	5
Health/social services	311,586	314,338	310,535	3,803
Education/cultural	721,412	722,914	697,274	25,640
Resource/recreation/environment	23,666	28,845	28,419	426
Economic development/assistance	26,580	26,646	25,526	1,120
Debt service:				
Principal retirement	2,756	2,867	700	2,167
Interest/fiscal charges	149	149	149	-
Capital outlay	5,153	5,270	1,714	3,556
Total expenditures	1,562,631	1,584,539	1,535,385	49,154
Excess of revenue over (under) expenditures	(79,615)	(101,523)	41,555	143,078
<b>OTHER FINANCING SOURCES (USES)</b>				
Loans issued	-	-	-	-
Bonds issued	-	-	-	-
Insurance proceeds	628	628	72	(556)
General capital asset sale proceeds	71	71	44	(27)
Transfers in	73,866	73,866	63,428	(10,438)
Transfers out	(22,089)	(26,076)	(25,230)	846
Total other financing sources (uses)	52,476	48,489	38,314	(10,175)
Net change in fund balances (Budgetary basis)	(27,139)	(53,034)	79,869	132,903
<b>RECONCILIATION OF BUDGETARY/GAAP REPORTING</b>				
1. Securities lending income	-	-	2,240	2,240
2. Securities lending costs	-	-	(2,197)	(2,197)
3. Inception of lease/installment contract	-	-	597	597
4. Adjust expenditures for encumbrances	-	-	(654)	(654)
5. Adjustments for nonbudgeted activity	-	-	40,514	40,514
Net change in fund balances (GAAP basis)	(27,139)	(53,034)	120,369	173,403
Unreserved fund balances - July 1	289,675	289,675	289,675	-
Prior period adjustments	-	-	(2,008)	(2,008)
Decrease (increase):				
Encumbrances reserve	-	-	681	681
Long-term loans/notes receivable reserve	-	-	(113)	(113)
Advances to other funds reserve	-	-	31	31
Special revenue reserve	-	-	-	-
Escheated property reserve	-	-	(55)	(55)
Unreserved fund balances - June 30	\$ 262,536	\$ 236,641	\$ 408,580	\$ 171,939

The notes to the required supplementary information are an integral part of this schedule.



STATE SPECIAL REVENUE FUND				FEDERAL SPECIAL REVENUE FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
\$ 129,800	\$ 129,800	\$ 130,000	\$ 200	\$ -	\$ -	\$ -	\$ -
130,277	130,277	123,050	(7,227)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,589	11,589	11,797	208	-	-	-	-
198,445	198,445	207,259	8,814	-	-	-	-
77,611	77,611	82,019	4,408	-	-	-	-
96,808	96,808	78,924	(17,884)	54,176	54,176	30,463	(23,713)
8,554	8,554	10,716	2,162	311	311	1,008	697
5,326	5,326	3,996	(1,330)	-	-	-	-
596	596	924	328	-	-	-	-
8,425	8,425	8,390	(35)	-	-	-	-
24,018	24,018	16,149	(7,869)	1,069	1,069	817	(252)
28,948	28,948	9,970	(18,978)	1,569,113	1,569,113	1,379,581	(189,532)
39,398	39,398	31,418	(7,980)	52,620	52,620	50,077	(2,543)
-	-	3,160	3,160	-	-	260	260
759,795	759,795	717,772	(42,023)	1,677,289	1,677,289	1,462,206	(215,083)
168,048	170,441	135,383	35,058	14,103	17,612	11,439	6,173
45,453	46,715	40,050	6,665	81,421	98,555	44,655	53,900
385,002	421,983	278,476	143,507	316,041	323,001	247,524	75,477
95,791	96,275	77,390	18,885	955,203	969,061	879,480	89,581
91,611	92,604	91,554	1,050	189,577	335,587	182,480	153,107
134,120	150,500	106,464	44,036	89,858	100,024	54,242	45,782
75,796	82,301	58,886	23,415	76,489	104,960	62,793	42,167
2,536	2,456	390	2,066	275	278	251	27
526	526	526	-	42	42	42	-
74,906	72,274	27,278	44,996	39,101	56,668	22,411	34,257
1,073,789	1,136,075	816,397	319,678	1,762,110	2,005,788	1,505,317	500,471
(313,994)	(376,280)	(98,625)	277,655	(84,821)	(328,499)	(43,111)	285,388
480	480	-	(480)	-	-	-	-
65,700	65,700	5,700	(60,000)	-	-	-	-
3,653	3,653	(753)	(4,406)	27	27	(242)	(269)
126	126	95	(31)	-	-	20	20
150,107	150,107	130,058	(20,049)	37,640	37,640	4,137	(33,503)
(18,734)	(15,749)	(4,853)	10,896	(48,364)	(48,189)	(18,400)	29,789
201,332	204,317	130,247	(74,070)	(10,697)	(10,522)	(14,485)	(3,963)
(112,662)	(171,963)	31,622	203,585	(95,518)	(339,021)	(57,596)	281,425
-	-	1,411	1,411	-	-	17	17
-	-	(1,676)	(1,676)	-	-	(17)	(17)
-	-	70	70	-	-	178	178
-	-	(9,057)	(9,057)	-	-	(1,067)	(1,067)
-	-	4,843	4,843	-	-	58,654	58,654
(112,662)	(171,963)	27,213	199,176	(95,518)	(339,021)	169	339,190
(49,508)	(49,508)	(49,508)	-	(1,502)	(1,502)	(1,502)	-
-	-	527	527	-	-	(4)	(4)
-	-	2,151	2,151	-	-	457	457
-	-	(27,606)	(27,606)	-	-	58	58
-	-	137	137	-	-	-	-
-	-	(4,611)	(4,611)	-	-	(747)	(747)
-	-	-	-	-	-	-	-
\$ (162,170)	\$ (221,471)	\$ (51,697)	\$ 169,774	\$ (97,020)	\$ (340,523)	\$ (1,569)	\$ 338,954

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

### NOTE RSI-1. BUDGETARY REPORTING

#### A. State Budget Process

The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The Legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the general, special revenue and capital projects funds, except for those special revenue funds from non-state and non-federal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except capital project funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor, and the Legislative Fiscal Division receives a copy. The Office of Budget and Program Planning (OBPP) and the Governor analyze the requests, establish priorities, and along with other information develop the requests into the executive budget request submitted to the Legislature. Joint appropriations subcommittee hearings are held, and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The Legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. OBPP establishes appropriations for each program by accounting entity (fund) within an agency. The Legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution, or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the

Legislature may authorize supplemental appropriations. The Governor, or designee, may approve budget amendments for non-general fund monies not available for consideration by the Legislature and for emergencies. In the accompanying financial schedule, original and final budget amounts are reported. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the Legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued or encumbered. Fund balances are not reserved for reverted appropriations. For fiscal year 2006, reverted governmental fund appropriations were as follows: General Fund - \$19.2 million, State Special Revenue Fund - \$147.5 million, and Federal Special Revenue Fund - \$201.2 million. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of OBPP.

Appropriations for capital projects funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose, and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

#### B. Budget Basis

The Legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in proprietary funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.).

**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION PLAN INFORMATION**
**Pension Plan Information**  
**Single Employer Systems**  
**Schedule of Funding Progress**  
*(in thousands)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>HPORS</b>						
07/01/04	79,104	104,069	24,965	76.01%	7,844	318.27%
06/30/05	82,050	112,938	30,888	72.65%	9,104	339.28%
06/30/06	87,189	112,002	24,813	77.85%	7,878	314.97%
<b>JRS</b>						
07/01/04	45,134	34,724	(10,410)	129.98%	4,403	(236.43)%
06/30/05	47,552	34,525	(13,027)	137.73%	4,462	(291.95)%
06/30/06	51,808	37,159	(14,649)	139.43%	4,762	(307.62)%

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**
**NOTE RSI-2. PENSION PLAN INFORMATION**

The information presented in this required supplementary schedule was determined as part of the actuarial valuations at the dates indicated in the table below. Additional information as of the latest actuarial valuation follows:

	<b>Pension Plan Information</b>	
	<b>Single Employer Systems</b>	
	<b>HPORS</b>	<b>JRS</b>
Contributions (in thousands)		
Employer	\$2,905	\$1,229
Employee	847	333
License and registration fees	277	
Actuarial valuation date	6/30/06	6/30/06
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	18 years	30 years
Asset valuation method	4-year smoothed market	4-year smoothed market
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.25%	4.25%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

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## **SUPPLEMENTARY INFORMATION**

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**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

JUNE 30, 2006

(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
<b>ASSETS</b>				
Cash/cash equivalents	\$ 20,746	\$ 49,447	\$ 4,042	\$ 74,235
Receivables (net)	2,419	1,122	1,528	5,069
Due from other funds	1	93	-	94
Equity in pooled investments	-	-	200,285	200,285
Long-term loans/notes receivable	27,952	-	-	27,952
Advances to other funds	3,110	-	-	3,110
Investments	1,512	-	7,056	8,568
Securities lending collateral	155	708	11,945	12,808
Other assets	-	-	-	-
Total assets	\$ 55,895	\$ 51,370	\$ 224,856	\$ 332,121
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	5	1,935	15	1,955
Interfund loans payable	-	1,361	-	1,361
Due to other funds	46	57	1,906	2,009
Due to component units	-	30	-	30
Advances from other funds	12,701	-	-	12,701
Deferred revenue	334	-	-	334
Securities lending liability	155	708	11,945	12,808
Total liabilities	13,241	4,091	13,866	31,198
Fund balances:				
Reserved for:				
Encumbrances	-	7	-	7
Long-term loans/notes receivable	27,952	-	-	27,952
Advances to other funds	3,110	-	-	3,110
Debt service	4,809	-	-	4,809
Trust principal	-	-	210,990	210,990
Unreserved, designated	7,420	-	-	7,420
Unreserved, undesignated	(637)	47,272	-	46,635
Total fund balances	42,654	47,279	210,990	300,923
Total liabilities and fund balances	\$ 55,895	\$ 51,370	\$ 224,856	\$ 332,121

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	DEBT SERVICE	CAPITAL PROJECTS	PERMANENT	TOTAL
<b>REVENUES</b>				
Licenses/permits	\$ -	\$ -	\$ 412	\$ 412
Taxes:				
Natural resource	510	4,064	643	5,217
Fuel	-	-	13	13
Other	-	1,990	-	1,990
Charges for services/fines/forfeits/settlements	859	502	9,940	11,301
Investment earnings	8,454	516	1,269	10,239
Securities lending income	14	9	746	769
Sale of documents/merchandise/property	2,800	-	-	2,800
Rentals/leases/royalties	-	-	160	160
Grants/contracts/donations	-	-	90	90
Other revenues	-	(61)	-	(61)
Total revenues	12,637	7,020	13,273	32,930
<b>EXPENDITURES</b>				
Current:				
General government	-	-	-	-
Public safety/corrections	-	3,971	-	3,971
Education/cultural	-	-	10	10
Resource/recreation/environment	4	-	-	4
Debt service:				
Principal retirement	31,189	-	-	31,189
Interest/fiscal charges	18,523	-	-	18,523
Capital outlay	-	11,572	8	11,580
Securities lending	14	9	730	753
Total expenditures	49,730	15,552	748	66,030
Excess of revenue over (under) expenditures	(37,093)	(8,532)	12,525	(33,100)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds issued	-	31,350	-	31,350
Bond premium	855	-	-	855
General capital asset sale proceeds	-	-	1	1
Transfers in	38,855	20,233	4,656	63,744
Transfers out	(4,985)	(4,626)	(11,307)	(20,918)
Total other financing sources (uses)	34,725	46,957	(6,650)	75,032
Net change in fund balances	(2,368)	38,425	5,875	41,932
Fund balances - July 1 - as previously reported	45,148	8,721	205,115	258,984
Prior period adjustments	(126)	133	-	7
Fund balances - July 1 - as restated	45,022	8,854	205,115	258,991
Fund balances - June 30	\$ 42,654	\$ 47,279	\$ 210,990	\$ 300,923

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## NONMAJOR DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for the payment of general long-term obligation principal and interest. A brief description of each debt service fund follows:

**Coal Tax** – This fund accounts for payments on special revenue renewable resource program (coal severance tax) bonds.

**Long-Range Building Program** – This fund accounts for payments on general obligation long-range building program bonds.

**Water & Wastewater Development** – This fund accounts for payments on the following general obligation bonds: wastewater treatment works revolving fund, renewable resource program, drinking water revolving fund, and water pollution control revolving fund.

**Water Conservation** – This fund accounts for payments on water conservation loans issued for the following projects: Little Dry and Petrolia.

**Health Care** – This fund accounts for payments on the following special revenue bonds: Montana State Hospital and Montana Developmental Center.

**Information Technology** – This fund accounts for payments on general obligation information technology bonds.

**Energy Conservation Program** – This fund accounts for payments on general obligation bonds issued for State Building Energy Conservation Projects.

**Environmental Reclamation** – This fund accounts for payments on the following general obligation bonds: hard rock mining reclamation and CERCLA program.

**Highway** – This fund accounts for payments on the U.S. Highway 93 GARVEES special revenue bonds.

**COMBINING BALANCE SHEET  
NONMAJOR DEBT SERVICE FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
<b>ASSETS</b>				
Cash/cash equivalents	\$ 8,277	\$ 1,159	\$ 7,784	\$ -
Receivables (net)	381	-	2,038	-
Due from other funds	-	1	-	-
Long-term loans/notes receivable	13,027	-	14,890	35
Advances to other funds	3,110	-	-	-
Investments	-	-	495	-
Securities lending collateral	125	-	27	-
Total assets	\$ 24,920	\$ 1,160	\$ 25,234	\$ 35
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	-	3	-	-
Due to other funds	-	-	46	-
Advances from other funds	-	-	12,701	-
Deferred revenue	73	-	261	-
Securities lending liability	125	-	27	-
Total liabilities	198	3	13,035	-
Fund balances:				
Reserved for:				
Long-term loans/notes receivable	13,027	-	14,890	35
Advances to other funds	3,110	-	-	-
Debt service	4,809	-	-	-
Unreserved, designated	1,722	1,157	-	-
Unreserved, undesignated	2,054	-	(2,691)	-
Total fund balances	24,722	1,157	12,199	35
Total liabilities and fund balances	\$ 24,920	\$ 1,160	\$ 25,234	\$ 35

HEALTH CARE		ENERGY CONSERVATION PROGRAM		ENVIRONMENTAL RECLAMATION		TOTAL
\$	3,180	\$	214	\$	132	\$ 20,746
	-		-		-	2,419
	-		-		-	1
	-		-		-	27,952
	-		-		-	3,110
	1,017		-		-	1,512
	-		3		-	155
\$	4,197	\$	217	\$	132	\$ 55,895
	-		2		-	5
	-		-		-	46
	-		-		-	12,701
	-		-		-	334
	-		3		-	155
	-		5		-	13,241
	-		-		-	27,952
	-		-		-	3,110
	-		-		-	4,809
	4,197		212		132	7,420
	-		-		-	(637)
	4,197		212		132	42,654
\$	4,197	\$	217	\$	132	\$ 55,895

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR DEBT SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	COAL TAX	LONG-RANGE BUILDING PROGRAM	WATER & WASTERWATER DEVELOPMENT	WATER CONSERVATION
<b>REVENUES</b>				
Taxes:				
Natural resource	\$ -	\$ -	\$ 322	\$ -
Charges for services/fines/forfeits/settlements	-	-	2	-
Investment earnings	1,053	173	6,862	2
Securities lending income	7	3	2	-
Sale of documents/merchandise/property	2,800	-	-	-
Total revenues	3,860	176	7,188	2
<b>EXPENDITURES</b>				
Current:				
Resource/recreation/environment	-	-	-	-
Debt service:				
Principal retirement	4,630	9,695	4,020	4
Interest/fiscal charges	1,476	5,717	1,944	2
Securities lending	7	3	2	-
Total expenditures	6,113	15,415	5,966	6
Excess of revenue over (under) expenditures	(2,253)	(15,239)	1,222	(4)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond premium	-	855	-	-
Transfers in	897	15,361	1,450	-
Transfers out	(1,920)	-	(3,027)	-
Total other financing sources (uses)	(1,023)	16,216	(1,577)	-
Net change in fund balances	(3,276)	977	(355)	(4)
Fund balances - July 1 - as previously reported	27,998	180	12,558	39
Prior period adjustments	-	-	(4)	-
Fund balances - July 1 - as restated	27,998	180	12,554	39
Fund balances - June 30	\$ 24,722	\$ 1,157	\$ 12,199	\$ 35

HEALTH CARE	INFORMATION TECHNOLOGY	ENERGY CONSERVATION PROGRAM	ENVIRONMENTAL RECLAMATION	HIGHWAY	TOTAL
\$ -	\$ -	\$ -	\$ 188	\$ -	\$ 510
-	99	758	-	-	859
265	-	99	-	-	8,454
-	-	2	-	-	14
-	-	-	-	-	2,800
265	99	859	188	-	12,637
-	-	3	1	-	4
1,415	5,820	560	85	4,960	31,189
1,533	855	141	152	6,703	18,523
-	-	2	-	-	14
2,948	6,675	706	238	11,663	49,730
(2,683)	(6,576)	153	(50)	(11,663)	(37,093)
-	-	-	-	-	855
2,726	6,576	-	182	11,663	38,855
-	-	(36)	(2)	-	(4,985)
2,726	6,576	(36)	180	11,663	34,725
43	-	117	130	-	(2,368)
4,154	-	217	2	-	45,148
-	-	(122)	-	-	(126)
4,154	-	95	2	-	45,022
\$ 4,197	\$ -	\$ 212	\$ 132	\$ -	\$ 42,654

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## NONMAJOR CAPITAL PROJECTS FUNDS

Capital project funds are used to account for financial resources used for the acquisition or construction of major governmental general capital assets. A brief description of each capital project fund follows:

**Long-Range Building Program** – This fund is maintained to account for resources received and expended for the State's long-range building program. The long-range building program includes costs for the acquisition, construction, and improvement of major capital assets financed by general obligation bonds and interest earned on bond proceeds.

**Information Technology Projects** – This fund accounts for resources received and expended for information technology projects for various upgrade and replacement activities.

**Federal/Private Construction Grants** – This fund accounts for federal grants, private donations, and federal matching funds that are restricted to general capital asset construction.

**Capital Land Grant** – This fund accounts for revenues and expenditures from the Capital Land Grant. Revenues are dedicated for the purpose of constructing capital buildings or additions thereto. Revenues may be transferred to a debt service fund for the payment of principal and interest on bonds issued for capital building construction.

**COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECTS FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	CAPITAL LAND GRANT	TOTAL
<b>ASSETS</b>				
Cash/cash equivalents	\$ 47,509	\$ 478	\$ 1,460	\$ 49,447
Receivables (net)	1,122	-	-	1,122
Due from other funds	93	-	-	93
Securities lending collateral	707	1	-	708
Total assets	\$ 49,431	\$ 479	\$ 1,460	\$ 51,370
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	1,907	28	-	1,935
Interfund loans payable	1,361	-	-	1,361
Due to other funds	55	2	-	57
Due to component units	30	-	-	30
Securities lending liability	707	1	-	708
Total liabilities	4,060	31	-	4,091
Fund balances:				
Encumbrances	7	-	-	7
Unreserved	45,364	448	1,460	47,272
Total fund balances	45,371	448	1,460	47,279
Total liabilities and fund balances	\$ 49,431	\$ 479	\$ 1,460	\$ 51,370



**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR CAPITAL PROJECTS FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	LONG-RANGE BUILDING PROGRAM	INFORMATION TECHNOLOGY PROJECTS	FEDERAL/ PRIVATE CONSTRUCTION GRANTS	CAPITAL LAND GRANT	TOTAL
<b>REVENUES</b>					
Taxes:					
Natural Resource	\$ 4,064	\$ -	\$ -	\$ -	\$ 4,064
Other	1,990	-	-	-	1,990
Charges for services/fines/forfeits/settlements	502	-	-	-	502
Investment earnings	516	-	-	-	516
Securities lending income	9	-	-	-	9
Other revenues	(61)	-	-	-	(61)
Total revenues	7,020	-	-	-	7,020
<b>EXPENDITURES</b>					
Current:					
Public safety/corrections	-	3,971	-	-	3,971
Capital outlay	10,772	486	314	-	11,572
Securities lending	9	-	-	-	9
Total expenditures	10,781	4,457	314	-	15,552
Excess of revenue over (under) expenditures	(3,761)	(4,457)	(314)	-	(8,532)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bonds issued	31,350	-	-	-	31,350
Transfers in	14,045	3,875	723	1,590	20,233
Transfers out	(3,582)	(20)	-	(1,024)	(4,626)
Total other financing sources (uses)	41,813	3,855	723	566	46,957
Net change in fund balances	38,052	(602)	409	566	38,425
Fund balances - July 1 - as previously reported	7,186	1,050	(409)	894	8,721
Prior period adjustments	133	-	-	-	133
Fund balances - July 1 - as restated	7,319	1,050	(409)	894	8,854
Fund balances - June 30	\$ 45,371	\$ 448	\$ -	\$ 1,460	\$ 47,279

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## NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support state government programs. A brief description of each permanent fund follows:

**Resource Indemnity** – Taxes paid by persons engaging in or carrying on the business of mining, extracting, or producing minerals are deposited in this fund. Only the net earnings of the trust may be appropriated until the principal reaches \$100 million. Interest earnings are expended from a special revenue fund. This fund is administered by the Department of Revenue.

**Parks Trust and Cultural Trust** – A portion of coal severance taxes are credited to these funds by the Department of Revenue. Income from the trusts is used for the acquisition and maintenance of state parks and historical sites by the Department of Fish, Wildlife and Parks. The Montana Arts Council uses income from the trusts for the protection of works of art in the State Capitol and for other cultural projects.

**Real Property Trust** – Money received by the Department of Fish, Wildlife and Parks from the sale of real property; the exploration and development of oil, gas, and mineral deposits; and leasing department real property is deposited in this fund. Interest is recorded in a special revenue fund and used for developing and maintaining real property of the department.

**Noxious Weed Management** – The Department of Agriculture accounts for revenues and interest earned on fees charged for the control of noxious weeds.

**Historical Society Trusts** – The fund accounts for memorials, bequests, and various other contributions to the Montana Historical Society. Includes the following trust funds: James H. Bradley Memorial, Thomas Teakle, Merritt-Wheeler Memorial, Historical Society Acquisitions, Sobotka Memorial, and Edger I. and Jane R. Stewart.

**Endowment for Children** – This fund provides services and activities related to a broad range of child abuse and neglect prevention activities operated by non-profit or public community educational and service organizations.

**Tobacco Settlement Interest** – This fund holds interest earned by investing the Tobacco Settlement Principal.

**Zortman/Landusky Water Treatment** – This fund provides for long-term or perpetual water treatment at the Zortman and Landusky mine sites.

**COMBINING BALANCE SHEET**  
**NONMAJOR PERMANENT FUNDS**  
 JUNE 30, 2006  
 (amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
<b>ASSETS</b>					
Cash/cash equivalents	\$ 506	\$ 469	\$ 136	\$ 645	\$ 1,263
Receivables (net)	636	218	108	90	59
Equity in pooled investments	100,665	16,534	8,182	8,895	-
Investments	-	-	-	2,195	3,646
Securities lending collateral	4,821	795	393	947	1,010
Total assets	\$ 106,628	\$ 18,016	\$ 8,819	\$ 12,772	\$ 5,978
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	-	-	-	2	4
Due to other funds	1,119	81	53	57	227
Securities lending liability	4,821	795	393	947	1,010
Total liabilities	5,940	876	446	1,006	1,241
Fund balances:					
Reserved for:					
Trust principal	100,688	17,140	8,373	11,766	4,737
Total fund balances	100,688	17,140	8,373	11,766	4,737
Total liabilities and fund balances	\$ 106,628	\$ 18,016	\$ 8,819	\$ 12,772	\$ 5,978

HISTORICAL SOCIETY TRUSTS	ENDOWMENT FOR CHILDREN	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$ 98	\$ 1	\$ 917	\$ 7	\$ 4,042
3	-	410	4	1,528
1,184	-	64,825	-	200,285
-	-	-	1,215	7,056
27	-	3,114	838	11,945
\$ 1,312	\$ 1	\$ 69,266	\$ 2,064	\$ 224,856
5	-	-	4	15
-	-	369	-	1,906
27	-	3,114	838	11,945
32	-	3,483	842	13,866
1,280	1	65,783	1,222	210,990
1,280	1	65,783	1,222	210,990
\$ 1,312	\$ 1	\$ 69,266	\$ 2,064	\$ 224,856

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**NONMAJOR PERMANENT FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	RESOURCE INDEMNITY	PARKS TRUST	CULTURAL TRUST	REAL PROPERTY TRUST	NOXIOUS WEED MANAGEMENT
<b>REVENUES</b>					
Licenses/permits	\$ -	\$ -	\$ -	\$ 412	\$ -
Taxes:					
Natural resource	-	430	213	-	-
Fuel	-	-	-	-	13
Charges for services/fines/forfeits/settlements	-	-	-	-	-
Investment earnings	422	80	62	167	114
Securities lending income	350	57	25	48	58
Rentals/leases/royalties	-	-	-	160	-
Grants/contracts/donations	-	-	-	-	-
Total revenues	772	567	300	787	185
<b>EXPENDITURES</b>					
Current:					
Education/cultural	-	-	-	-	-
Capital outlay	-	-	-	-	-
Securities lending	344	56	25	47	55
Total expenditures	344	56	25	47	55
Excess of revenue over (under) expenditures	428	511	275	740	130
<b>OTHER FINANCING SOURCES (USES)</b>					
General capital asset sale proceeds	-	-	-	-	-
Transfers in	-	-	3,413	-	43
Transfers out	(6,147)	(867)	(447)	(570)	(227)
Total other financing sources (uses)	(6,147)	(867)	2,966	(570)	(184)
Net change in fund balances	(5,719)	(356)	3,241	170	(54)
Fund balances - July 1 - as previously reported	106,407	17,496	5,132	11,596	4,791
Fund balances - June 30	\$ 100,688	\$ 17,140	\$ 8,373	\$ 11,766	\$ 4,737

HISTORICAL SOCIETY TRUSTS	ENDOWMENT FOR CHILDREN	TOBACCO SETTLEMENT INTEREST	ZORTMAN/ LANDUSKY WATER TREATMENT	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 412
-	-	-	-	643
-	-	-	-	13
-	-	9,940	-	9,940
79	-	324	21	1,269
1	-	198	9	746
-	-	-	-	160
90	-	-	-	90
170	-	10,462	30	13,273
10	-	-	-	10
8	-	-	-	8
1	-	194	8	730
19	-	194	8	748
151	-	10,268	22	12,525
1	-	-	-	1
-	-	-	1,200	4,656
-	-	(3,049)	-	(11,307)
1	-	(3,049)	1,200	(6,650)
152	-	7,219	1,222	5,875
1,128	1	58,564	-	205,115
\$ 1,280	\$ 1	\$ 65,783	\$ 1,222	\$ 210,990

## NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that provide goods or services to the public on a user charge basis. A brief description of each enterprise fund follows:

**Liquor Warehouse** – This fund accounts for activities related to the sale and distribution of alcoholic beverages and licensing within the State. Profits and license fees are used to finance General Fund expenditures.

**Hail Insurance** – Any producer engaged in the growing of crops subject to damage by hail may participate in the hail insurance program. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs, and benefits paid by the Department of Agriculture.

**State Lottery** – This fund accounts for the operations of Montana's lottery.

**Prison Industries** – These operations provide training and employment for inmates. The products produced are sold to state agencies, non-profit organizations, and other customers in accordance with state policies.

**MUS Group Insurance** – This fund accounts for employee contributions to the Montana University System's medical/dental self-insurance plan.

**MUS Workers Compensation** – This fund accounts for self-insured workers compensation coverage for employees of the Montana University System.

**Subsequent Injury** – This fund accounts for the assessments collected from employers and benefits paid to workers who are certified as vocationally handicapped and are injured on the job.

**Secretary of State Business Services** – This fund accounts for the Business and Government Services activities and the Administrative Code Program of the Secretary of State's Office.

**Historical Society Publications** – This fund accounts for the Historical Society's sales from "Montana, The Magazine of Western History"; books; publications; and merchandise from the Historical Society store.

**Surplus Property** – The Department of Administration accounts for intragovernmental sales of state and federal surplus property to state agencies, local governments, and designated non-profit organizations.

**West Yellowstone Airport** – This fund, administered by the Department of Transportation, accounts for operations of the airport at West Yellowstone. User airlines are assessed rental and landing fees.



**Local Government Audits** – This fund accounts for the costs incurred by the Department of Administration for audits of local governments, required under Sections 2-7-501 through 522 of the Montana Code Annotated, and the fees assessed the local governments for the audits.

**Flexible Spending Administration** – This fund accounts for the fees collected from the participants in the Flexible Spending Programs and the related administrative costs of the plans administered by the Department of Administration and the Office of the Commissioner of Higher Education.

**HUD Section 8 Housing** – This fund accounts for a program that provides rental assistance to low-income families throughout Montana.

**State Nursery** – This fund accounts for the Department of Natural Resource and Conservation's Forestry Division Nursery Program and produces and distributes seedlings for conservation plantings to private landowners, state, federal and tribal landowners, and other conservation organizations.

**Other Enterprise Funds** – This category includes several small enterprise funds administered by various agencies.

**COMBINING STATEMENT OF NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
<b>ASSETS</b>				
Current assets:				
Cash/cash equivalents	\$ 3,975	\$ 10,435	\$ 2,365	\$ 1,501
Receivables (net)	14,245	3,104	905	388
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	1	9	-	152
Due from component units	1	-	-	4
Inventories	57	-	1,394	5,494
Securities lending collateral	-	155	34	-
Other current assets	80	-	27	-
Total current assets	18,359	13,703	4,725	7,539
Noncurrent assets:				
Advances to other funds	75	-	-	-
Long-term investments	-	-	-	-
Long-term notes/loans receivable	-	-	-	-
Deferred charges	-	-	-	-
Other long-term assets	-	-	1,394	292
Capital assets:				
Land	-	-	-	690
Land improvements	-	-	-	240
Buildings/improvements	2,044	-	-	4,652
Equipment	366	-	412	3,695
Infrastructure	-	-	-	884
Construction in progress	-	-	-	309
Intangible assets	-	-	-	-
Less accumulated depreciation	(1,478)	-	(286)	(5,152)
Total capital assets	932	-	126	5,318
Total noncurrent assets	1,007	-	1,520	5,610
Total assets	19,366	13,703	6,245	13,149

(Continued on Next Page)

**COMBINING STATEMENT OF NET ASSETS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
<b>ASSETS</b>			
Current assets:			
Cash/cash equivalents	\$ 421	\$ 235	\$ 551
Receivables (net)	-	2	243
Interfund loans receivable	-	-	-
Due from other governments	-	-	-
Due from other funds	-	-	-
Due from component units	-	-	6
Inventories	-	-	-
Securities lending collateral	-	-	2
Other current assets	-	-	-
Total current assets	421	237	802
Noncurrent assets:			
Advances to other funds	-	-	-
Long-term investments	-	-	-
Long-term notes/loans receivable	-	-	-
Deferred charges	-	-	-
Other long-term assets	-	-	-
Capital assets:			
Land	110	-	-
Land improvements	2,103	-	-
Buildings/improvements	487	-	-
Equipment	70	-	-
Infrastructure	-	-	-
Construction in progress	-	-	-
Intangible assets	-	-	-
Less accumulated depreciation	(737)	-	-
Total capital assets	2,033	-	-
Total noncurrent assets	2,033	-	-
Total assets	2,454	237	802

	HUD SECTION 8 HOUSING	STATE NURSERY	OTHER ENTERPRISE FUNDS	TOTAL
\$	5,809	\$ 29	\$ 283	\$ 61,742
	42	-	-	19,301
	-	-	-	4
	245	-	-	245
	1	-	11	239
	-	-	-	1,844
	-	-	111	7,757
	93	-	2	1,301
	1	-	-	339
	6,191	29	407	92,772
	-	-	-	75
	-	-	-	3,201
	268	-	-	268
	-	-	-	18
	-	-	-	1,686
	-	-	-	800
	-	-	-	2,343
	-	-	-	7,301
	68	56	12	5,167
	-	-	-	884
	-	-	-	309
	16	-	-	413
	(53)	(49)	(3)	(8,114)
	31	7	9	9,103
	299	7	9	14,351
	6,490	36	416	107,123

(Continued on Next Page)

**COMBINING STATEMENT OF NET ASSETS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 4,673	\$ 12	\$ 299	\$ 211
Lottery prizes payable	-	-	1,565	-
Interfund loans payable	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	9,885	68	2,716	28
Due to component units	-	-	-	-
Deferred revenue	1,380	3,123	204	15
Bonds/notes payable (net)	-	-	-	-
Amounts held in custody for others	80	-	-	1
Securities lending liability	-	155	34	-
Estimated insurance claims	-	94	-	-
Compensated absences payable	109	13	105	100
Other current liabilities	-	-	-	-
Total current liabilities	16,127	3,465	4,923	355
Noncurrent liabilities:				
Lottery prizes payable	-	-	1,242	-
Bonds/notes payable (net)	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	102	9	80	164
Other long-term liabilities	-	-	-	-
Total noncurrent liabilities	102	9	1,322	164
Total liabilities	16,229	3,474	6,245	519
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	932	-	126	5,320
Restricted for:				
Other purposes	-	10,229	-	-
Unrestricted	2,205	-	(126)	7,310
Total net assets	\$ 3,137	\$ 10,229	\$ -	\$ 12,630

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ 855	\$ 19	\$ 2	\$ 141	\$ 35	\$ 19
-	-	-	-	-	-
-	-	33	-	-	225
-	-	-	-	-	-
7	-	-	97	4	2
-	-	-	-	-	-
-	-	-	131	128	-
-	420	-	-	-	-
-	-	-	4	-	-
454	-	504	57	-	-
6,250	617	426	-	-	-
10	-	-	121	28	18
29	-	-	-	-	-
7,605	1,056	965	551	195	264
-	-	-	-	-	-
-	430	-	-	-	-
-	3,921	2,551	-	-	-
10	-	-	64	40	11
227	-	-	-	-	-
237	4,351	2,551	64	40	11
7,842	5,407	3,516	615	235	275
-	-	-	131	1	122
22,542	809	-	-	-	-
-	-	(1,442)	3,755	407	10
\$ 22,542	\$ 809	\$ (1,442)	\$ 3,886	\$ 408	\$ 132

(Continued on Next Page)

**COMBINING STATEMENT OF NET ASSETS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 7	\$ 19	\$ 46
Lottery prizes payable	-	-	-
Interfund loans payable	-	-	-
Due to other governments	-	-	-
Due to other funds	-	1	-
Due to component units	-	-	-
Deferred revenue	-	-	-
Bonds/notes payable (net)	-	-	-
Amounts held in custody for others	1	-	-
Securities lending liability	-	-	2
Estimated insurance claims	-	-	-
Compensated absences payable	3	12	-
Other current liabilities	-	-	-
Total current liabilities	11	32	48
Noncurrent liabilities:			
Lottery prizes payable	-	-	-
Bonds/notes payable (net)	-	-	-
Estimated insurance claims	-	-	-
Compensated absences payable	-	47	-
Other long-term liabilities	-	-	-
Total noncurrent liabilities	-	47	-
Total liabilities	11	79	48
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,034	-	-
Restricted for:			
Other purposes	409	-	754
Unrestricted	-	158	-
Total net assets	\$ 2,443	\$ 158	\$ 754



HUD SECTION 8 HOUSING	STATE NURSERY	OTHER ENTERPRISE FUNDS	TOTAL
\$ 59	\$ 17	\$ 54	\$ 6,468
-	-	-	1,565
-	-	-	258
406	-	-	406
17	-	24	12,849
-	-	-	-
1,959	-	-	6,940
-	-	-	420
-	-	-	86
93	-	2	1,301
-	-	-	7,387
58	9	-	586
-	-	-	29
2,592	26	80	38,295
-	-	-	1,242
-	-	-	430
-	-	-	6,472
30	22	18	597
-	-	-	227
30	22	18	8,968
2,622	48	98	47,263
29	-	10	8,705
-	-	308	35,051
3,839	(12)	-	16,104
\$ 3,868	\$ (12)	\$ 318	\$ 59,860

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
<b>Operating revenues:</b>				
Charges for services	\$ 58,822	\$ -	\$ 39,923	\$ 5,718
Investment earnings	-	363	200	-
Securities lending income	-	6	2	-
Contributions/premiums	-	3,048	-	-
Grants/contracts/donations	-	-	-	-
Taxes	17,317	-	-	-
Other operating revenues	173	9	6	-
Total operating revenues	76,312	3,426	40,131	5,718
<b>Operating expenses:</b>				
Personal services	2,053	238	1,619	2,156
Contractual services	529	186	5,826	130
Supplies/materials	47,414	4	1,110	2,144
Benefits/claims	-	2,442	-	-
Depreciation	97	-	668	271
Amortization	-	-	123	-
Utilities/rent	154	6	113	215
Communications	173	7	581	13
Travel	20	29	38	22
Repair/maintenance	41	-	11	351
Grants	-	-	-	-
Lottery prize payments	-	-	20,728	-
Interest expense	-	-	-	-
Securities lending expense	-	6	2	-
Dividend expense	-	1,706	-	-
Other operating expenses	33	7	202	340
Total operating expenses	50,514	4,631	31,021	5,642
Operating income (loss)	25,798	(1,205)	9,110	76
<b>Nonoperating revenues (expenses):</b>				
Increase (decrease) value of livestock	-	-	-	284
Total nonoperating revenues (expenses)	-	-	-	284
Income (loss) before contributions and transfers	25,798	(1,205)	9,110	360
Capital contributions	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(25,067)	(69)	(9,110)	-
Change in net assets	731	(1,274)	-	360
Total net assets - July 1 - as previously reported	2,406	11,503	-	12,272
Prior period adjustments	-	-	-	(2)
Total net assets - July 1 - as restated	2,406	11,503	-	12,270
Total net assets - June 30	\$ 3,137	\$ 10,229	\$ -	\$ 12,630

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
\$ -	\$ -	\$ 128	\$ 3,866	\$ 830	\$ 299
1,095	166	45	107	-	-
19	-	25	2	-	-
54,164	3,543	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
508	-	4	33	9	-
55,786	3,709	202	4,008	839	299
292	-	-	2,042	423	184
3,151	387	-	451	217	43
39	-	-	138	193	273
48,163	2,515	737	-	-	-
-	-	-	39	-	12
-	-	-	113	-	-
17	-	-	186	33	25
7	-	-	147	58	10
4	-	-	50	10	1
1	-	-	18	10	3
-	-	-	-	-	-
-	-	-	-	-	-
-	46	-	-	-	-
19	-	25	2	-	-
-	-	-	-	-	-
446	30	-	40	39	10
52,139	2,978	762	3,226	983	561
3,647	731	(560)	782	(144)	(262)
-	-	-	-	-	-
-	-	-	-	-	-
3,647	731	(560)	782	(144)	(262)
-	-	-	-	-	378
-	-	-	-	51	-
-	-	(55)	-	-	-
3,647	731	(615)	782	(93)	116
18,895	78	(827)	3,104	501	19
-	-	-	-	-	(3)
18,895	78	(827)	3,104	501	16
\$ 22,542	\$ 809	\$ (1,442)	\$ 3,886	\$ 408	\$ 132

(Continued on Next Page)

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
<b>Operating revenues:</b>			
Charges for services	\$ 27	\$ 274	\$ 103
Investment earnings	-	-	12
Securities lending income	-	-	-
Contributions/premiums	-	-	9,264
Grants/contracts/donations	-	-	-
Taxes	-	-	-
Other operating revenues	122	-	-
Total operating revenues	149	274	9,379
<b>Operating expenses:</b>			
Personal services	46	215	-
Contractual services	7	22	112
Supplies/materials	6	5	-
Benefits/claims	-	-	8,894
Depreciation	124	-	-
Amortization	-	-	-
Utilities/rent	40	28	-
Communications	4	5	-
Travel	1	-	-
Repair/maintenance	13	-	-
Grants	-	-	-
Lottery prize payments	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Dividend expense	-	-	-
Other operating expenses	1	21	108
Total operating expenses	242	296	9,114
Operating income (loss)	(93)	(22)	265
<b>Nonoperating revenues (expenses):</b>			
Increase (decrease) value of livestock	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Income (loss) before contributions and transfers	(93)	(22)	265
Capital contributions	-	-	-
Transfers in	10	-	-
Transfers out	-	-	-
Change in net assets	(83)	(22)	265
Total net assets - July 1 - as previously reported	2,526	179	489
Prior period adjustments	-	1	-
Total net assets - July 1 - as restated	2,526	180	489
Total net assets - June 30	\$ 2,443	\$ 158	\$ 754

HUD SECTION 8 HOUSING	STATE NURSERY	OTHER ENTERPRISE FUNDS	TOTAL
\$ -	\$ 382	\$ 309	\$ 110,681
190	-	4	2,182
3	-	-	57
-	-	-	70,019
35,679	-	-	35,679
-	-	-	17,317
-	-	58	922
35,872	382	371	236,857
823	295	92	10,478
120	7	73	11,261
41	58	63	51,488
32,399	-	(1)	95,149
8	1	2	1,222
12	-	-	248
89	16	2	924
37	5	2	1,049
29	1	19	224
49	9	16	522
1,395	-	-	1,395
-	-	-	20,728
-	-	-	46
3	-	-	57
-	-	-	1,706
146	1	24	1,448
35,151	393	292	197,945
721	(11)	79	38,912
-	-	-	284
-	-	-	284
721	(11)	79	39,196
-	7	-	385
-	17	-	78
-	(25)	-	(34,326)
721	(12)	79	5,333
3,147	-	239	54,531
-	-	-	(4)
3,147	-	239	54,527
\$ 3,868	\$ (12)	\$ 318	\$ 59,860

**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
*(amounts expressed in thousands)*

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from sales and services	\$ 56,752	\$ 5,460	\$ 40,470	\$ 5,655
Payments to suppliers for goods and services	(47,712)	(231)	(8,361)	(4,809)
Payments to employees	(1,985)	(234)	(1,599)	(2,084)
Grant receipts	-	-	-	-
Grant payments	-	-	-	-
Cash payments for claims	-	(2,540)	-	-
Cash payments for prizes	-	-	(20,632)	-
Other operating revenues	173	-	-	-
Other operating payments	-	(1,706)	-	-
Net cash provided by (used for) operating activities	7,228	749	9,878	(1,238)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Collection of taxes	17,315	-	-	-
Transfers to other funds	(22,534)	(69)	(7,927)	-
Transfers from other funds	-	-	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payments of interfund loans/advances	-	-	-	-
Collection of principal and interest on loans	-	-	-	-
Payment of principal and interest on bonds and notes	-	-	-	-
Net cash provided by (used for) noncapital financing activities	(5,219)	(69)	(7,927)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	7	-	(49)	794
Proceeds from sale of capital assets	(1)	-	-	-
Net cash used for capital and related financing activities	6	-	(49)	794
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	6	-	-
Interest and dividends on investments	-	363	114	-
Payment of securities lending costs	-	(6)	-	-
Net cash provided by (used for) investing activities	-	363	114	-
Net increase (decrease) in cash and cash equivalents	2,015	1,043	2,016	(444)
Cash and cash equivalents, July 1	1,960	9,392	349	1,945
Cash and cash equivalents, June 30	\$ 3,975	\$ 10,435	\$ 2,365	\$ 1,501

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
52,375 \$	3,507 \$	376 \$	3,807 \$	849 \$	615
(3,566)	-	-	(969)	(552)	(368)
(103)	(215)	-	(2,015)	(430)	(184)
-	-	-	-	-	-
-	-	-	-	-	-
(46,506)	(1,115)	(563)	-	-	-
-	(228)	-	-	-	-
638	-	4	39	9	11
-	-	-	-	-	-
2,838	1,949	(183)	862	(124)	74
-	(3)	-	-	-	-
-	-	(55)	-	-	-
-	-	-	-	51	-
-	-	33	-	-	(67)
(4)	-	-	-	-	-
-	-	-	-	-	-
-	(445)	-	-	-	-
(4)	(448)	(22)	-	51	(67)
-	-	-	(36)	-	25
-	-	-	-	-	-
-	-	-	(36)	-	25
-	(775)	(224)	-	-	-
-	349	612	-	-	-
19	-	25	2	-	-
1,095	184	45	107	-	-
(19)	-	(25)	(2)	-	-
1,095	(242)	433	107	-	-
3,929	1,259	228	933	(73)	32
24,205	2,426	71	2,897	230	1
28,134 \$	3,685 \$	299 \$	3,830 \$	157	33

(Continued on Next Page)

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from sales and services	\$ 27	\$ 272	\$ 9,566
Payments to suppliers for goods and services	(72)	(76)	(230)
Payments to employees	(48)	(209)	-
Grant receipts	-	-	-
Grant payments	-	-	-
Cash payments for claims	-	-	(9,105)
Cash payments for prizes	-	-	-
Other operating revenues	123	-	-
Other operating payments	-	-	-
Net cash provided by (used for) operating activities	30	(13)	231
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Collection of taxes	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	10	-	-
Proceeds from interfund loans/advances	9	-	-
Payments of interfund loans/advances	-	-	-
Collection of principal and interest on loans	-	-	-
Payment of principal and interest on bonds and notes	-	-	-
Net cash provided by (used for) noncapital financing activities	19	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	-	-	-
Proceeds from sale of capital assets	-	-	-
Net cash used for capital and related financing activities	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	-	-	-
Proceeds from sales or maturities of investments	-	-	-
Proceeds from securities lending transactions	-	-	-
Interest and dividends on investments	-	-	12
Payment of securities lending costs	-	-	2
Net cash provided by (used for) investing activities	-	-	14
Net increase (decrease) in cash and cash equivalents	49	(13)	245
Cash and cash equivalents, July 1	372	248	306
Cash and cash equivalents, June 30	\$ 421	\$ 235	\$ 551



HUD SECTION 8 HOUSING	STATE NURSERY	OTHER ENTERPRISE FUNDS	TOTAL
\$ -	\$ 382	\$ 307	\$ 180,420
(32,904)	(116)	(267)	(100,233)
(831)	(279)	(66)	(10,282)
37,223	-	-	37,223
(1,395)	-	-	(1,395)
-	-	-	(59,829)
-	-	-	(20,860)
-	-	58	1,055
-	-	-	(1,706)
2,093	(13)	32	24,393
-	-	-	17,312
-	(25)	-	(30,610)
-	-	-	61
-	-	-	(25)
-	-	-	(4)
37	-	-	37
-	-	-	(445)
37	(25)	-	(13,674)
(1)	-	-	740
-	-	-	(1)
(1)	-	-	739
-	67	-	(932)
-	-	-	961
-	-	-	52
189	-	4	2,113
-	-	-	(50)
189	67	4	2,144
2,318	29	36	13,602
3,491	-	247	48,140
\$ 5,809	\$ 29	\$ 283	\$ 61,742

(Continued on Next Page)

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	LIQUOR WAREHOUSE	HAIL INSURANCE	STATE LOTTERY	PRISON INDUSTRIES
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 25,798	\$ (1,205)	\$ 9,110	\$ 76
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>				
Depreciation	97	-	668	271
Amortization	-	-	123	-
Taxes	(17,317)	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	6	34	-
Investment earnings	-	(363)	(200)	-
Securities lending income	-	(6)	(34)	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(2,006)	308	446	(20)
Decr (incr) in due from other funds	2	(9)	-	(67)
Decr (incr) in due from component units	-	-	-	(1)
Decr (incr) in due from other governments	-	-	-	-
Decr (incr) in inventories	(3)	-	(294)	(3,726)
Decr (incr) in other assets	-	-	13	2,198
Incr (decr) in accounts payable	3,137	-	(227)	-
Incr (decr) in lottery prizes payable	-	-	113	-
Incr (decr) in due to other funds	(2,534)	7	(1)	-
Incr (decr) in due to component units	-	-	-	-
Incr (decr) in deferred revenue	24	2,104	103	-
Incr (decr) in amounts held in custody for others	-	-	-	-
Incr (decr) in compensated absences payable	30	2	24	31
Incr (decr) in estimated claims	-	(95)	-	-
Net cash provided by (used for) operating activities	\$ 7,228	\$ 749	\$ 9,878	\$ (1,238)

MUS GROUP INSURANCE	MUS WORKERS COMPENSATION	SUBSEQUENT INJURY	SECRETARY OF STATE BUSINESS SERVICES	HISTORICAL SOCIETY PUBLICATIONS	SURPLUS PROPERTY
3,647 \$	731 \$	(560) \$	782 \$	(144) \$	(262)
-	-	-	39	-	12
-	-	-	113	-	-
-	-	-	-	-	-
-	46	-	-	-	-
19	-	25	2	-	-
(1,095)	(166)	(45)	(107)	-	-
(19)	-	(25)	(2)	-	-
(160)	-	-	-	15	(27)
-	-	-	(30)	(10)	12
(1,141)	(36)	48	1	-	-
-	-	-	-	-	-
-	-	-	(1)	9	386
-	(30)	199	(6)	-	-
-	3	(1)	13	-	-
-	-	-	-	-	-
-	-	2	69	-	(47)
(1)	-	-	-	-	-
-	-	-	(10)	10	-
-	-	-	(10)	-	-
(43)	-	-	9	(4)	-
1,631	1,401	174	-	-	-
2,838 \$	1,949 \$	(183) \$	862 \$	(124) \$	74

(Continued on Next Page)

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**NONMAJOR ENTERPRISE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	WEST YELLOWSTONE AIRPORT	LOCAL GOVERNMENT AUDITS	FLEXIBLE SPENDING ADMINISTRATION
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (93)	\$ (22)	\$ 265
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>			
Depreciation	124	-	-
Amortization	-	-	-
Taxes	-	-	-
Interest expense	-	-	-
Securities lending expense	-	-	-
Investment earnings	-	-	(12)
Securities lending income	-	-	-
Change in assets and liabilities:			
Decr (incr) in accounts receivable	-	(2)	(31)
Decr (incr) in due from other funds	-	-	(6)
Decr (incr) in due from component units	-	-	-
Decr (incr) in due from other governments	-	-	-
Decr (incr) in inventories	-	-	-
Decr (incr) in other assets	-	-	(19)
Incr (decr) in accounts payable	-	7	-
Incr (decr) in lottery prizes payable	-	-	-
Incr (decr) in due to other funds	(1)	(1)	-
Incr (decr) in due to component units	-	-	-
Incr (decr) in deferred revenue	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-
Incr (decr) in compensated absences payable	-	5	-
Incr (decr) in estimated claims	-	-	34
Net cash provided by (used for) operating activities	\$ 30	\$ (13)	\$ 231

HUD SECTION 8 HOUSING	STATE NURSERY	OTHER ENTERPRISE FUNDS	TOTAL
\$ 721	\$ (11)	\$ 79	\$ 38,912
8	-	2	1,221
12	-	-	248
-	-	-	(17,317)
-	-	-	46
-	-	-	86
(190)	-	(4)	(2,182)
-	-	-	(86)
-	-	-	(1,477)
(1)	-	(1)	(110)
-	-	-	(1,129)
59	-	-	59
-	-	(42)	(3,671)
-	(2)	-	2,353
-	-	-	2,932
-	-	-	113
-	-	-	(2,506)
-	-	-	(1)
1,484	-	-	3,715
-	-	-	(10)
-	-	2	56
-	-	(4)	3,141
<u>\$ 2,093</u>	<u>\$ (13)</u>	<u>\$ 32</u>	<u>\$ 24,393</u>

## INTERNAL SERVICE FUNDS

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. A brief description of each internal service fund follows:

**FWP Equipment** – This fund is used to account for interdepartmental and intradepartmental sales and use of FWP equipment.

**Highway Equipment** – This fund is used to account for interdepartmental and intradepartmental sales and use of Department of Transportation equipment.

**Employee Group Benefits** – This fund receives employee (excluding higher education units) withholdings and state contributions to the medical self-insurance plan. The State contracted with Blue Cross and Blue Shield of Montana to oversee the administrative functions of the program.

**Information Technology Services Division** – State agencies and private users are assessed a fee for their use of the State's phone system, centralized data processing, and systems design services provided by the Department of Administration.

**Administration Insurance** – In this fund, the Department of Administration accounts for the State's property self-insurance program (including liability, property, flood, etc.).

**Administration Supply** – This fund is used by the Department of Administration to account for intragovernmental sales of office supplies and paper products to state agencies.

**Motor Pool** – State employee transportation is provided by the Department of Transportation through a pool of vehicles. The cost of operating the Motor Pool is recovered through rental rates charged to user agencies based on the average operating costs per mile for each class of vehicle.

**Print & Mail Services** – Agencies are assessed a fee for duplicating, typesetting, forms design, and graphic arts services.

**Buildings & Grounds** – Rental proceeds from state agencies are used to pay maintenance, security, and landscaping costs for state-owned property.

**Central Service Funds** – This fund group consists of four funds, used by the Department of Administration, the Department of Labor and Industry, the Department of Commerce, and the Office of Public Instruction, for administrative services provided on a cost recovery basis to programs within the departments.

**DEQ Indirect Cost Pool** – This fund is used to account for funds collected as indirect costs from the operating units of the Department of Environmental Quality and to fund the department's indirect cost pool operations that provide services to the department.

**Payroll Processing** – This fund accounts for the payments received from state agencies for the costs associated with the processing of payroll warrants.

**Warrant Processing** – This fund accounts for the payments received from state agencies for the costs associated with the processing of all warrants other than payroll.

**Investment Division** – This fund accounts for costs associated with operations of the Board of Investments (BOI). BOI assists agencies in the investment of state funds. Costs of administering and accounting for each investment fund are allocated based on the dollar volume of investments held by user agencies.

**Aircraft Operation** – This fund is used by the Department of State Lands to account for fees charged to users of state aircraft.

**Justice Legal Services** – The Attorney General's Office and the Department of Justice charge other state agencies a fee for legal assistance. The Department of Administration funds legal services with intradepartmental fees.

**Personnel Training** – This fund accounts for fees charged to state agencies for training state employees. The fees are used by the Department of Administration to pay instructors and purchase training materials.

**Debt Collection** – The debt collection component of this fund accounts for fees charged for the collection of bad debts.

**Prison Industries** – These operations provide training and employment for inmates, where the products produced are primarily sold to other state agencies.

**Other Internal Services** – This category includes several small internal service funds administered by various agencies.

**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
 JUNE 30, 2006  
 (amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
<b>ASSETS</b>					
Current assets:					
Cash/cash equivalents	\$ 194	\$ 614	\$ 19,569	\$ 3,425	\$ 18,646
Receivables (net)	13	8	4,302	68	-
Interfund loans receivable	-	-	5	24	-
Due from other governments	1	-	-	-	-
Due from other funds	250	11	12	3,114	1
Due from component units	-	-	-	334	-
Inventories	-	1,351	-	-	-
Securities lending collateral	-	-	285	-	290
Other current assets	5	-	11	197	-
Total current assets	463	1,984	24,184	7,162	18,937
Noncurrent assets:					
Long-term investments	-	-	18,706	-	-
Capital assets:					
Land	-	-	-	-	-
Land improvements	-	-	-	-	-
Buildings/improvements	-	-	-	793	-
Equipment	9,907	122,035	-	38,689	-
Construction in progress	-	4,358	-	33	-
Intangible assets	-	-	70	619	52
Less accumulated depreciation	(3,708)	(64,994)	-	(34,744)	-
Total capital assets	6,199	61,399	70	5,390	52
Total noncurrent assets	6,199	61,399	18,776	5,390	52
Total assets	6,662	63,383	42,960	12,552	18,989
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	183	1,125	2,338	1,995	583
Interfund loans payable	300	2,000	-	-	-
Due to other funds	4	1	310	52	96
Due to component units	-	3	-	9	34
Deferred revenue	-	-	926	88	-
Lease/installment purchase payable	-	-	-	738	-
Amounts held in custody for others	-	-	-	-	-
Securities lending liability	-	-	285	-	290
Estimated insurance claims	-	-	9,707	-	2,959
Compensated absences payable	5	475	44	883	50
Total current liabilities	492	3,604	13,610	3,765	4,012
Noncurrent liabilities:					
Advances from other funds	-	-	-	-	-
Estimated insurance claims	-	-	2,809	-	13,257
Compensated absences payable	-	363	14	739	89
Total noncurrent liabilities	-	363	2,823	739	13,346
Total liabilities	492	3,967	16,433	4,504	17,358
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	6,181	61,399	70	6,128	52
Unrestricted	(11)	(1,983)	26,457	1,920	1,579
Total net assets	\$ 6,170	\$ 59,416	\$ 26,527	\$ 8,048	\$ 1,631



ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 89	\$ 263	\$ 260	\$ 940	\$ 196	\$ 866	\$ 274	\$ 409
209	-	14	4	-	-	-	-
225	-	-	5	-	-	50	-
-	1	-	-	-	-	-	-
132	323	830	108	-	147	63	210
20	2	32	4	-	16	10	-
404	25	225	-	-	-	-	-
-	-	-	-	-	-	-	-
7	-	339	1	-	-	1	-
1,086	614	1,700	1,062	196	1,029	398	619
-	-	-	-	-	-	-	-
-	236	-	-	-	-	-	-
-	-	-	95	-	-	-	-
-	-	-	32	-	-	-	-
115	16,266	1,660	214	-	299	33	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	5	-
(98)	(5,590)	(830)	(168)	-	(215)	(26)	-
17	10,912	830	173	-	84	12	-
17	10,912	830	173	-	84	12	-
1,103	11,526	2,530	1,235	196	1,113	410	619
268	318	407	326	38	405	59	55
-	3,300	-	-	-	-	-	-
4	2,319	66	9	5	55	6	28
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	3	-	-	-	-
-	-	-	-	-	-	-	-
19	23	65	80	40	304	68	70
291	5,960	538	418	83	764	133	153
-	4,452	-	-	-	-	-	-
-	-	-	-	-	-	-	-
40	12	45	52	65	195	92	63
40	4,464	45	52	65	195	92	63
331	10,424	583	470	148	959	225	216
17	10,912	829	173	-	84	12	-
755	(9,810)	1,118	592	48	70	173	403
\$ 772	\$ 1,102	\$ 1,947	\$ 765	\$ 48	\$ 154	\$ 185	\$ 403

(Continued on Next Page)

**COMBINING STATEMENT OF NET ASSETS - Continued**
**INTERNAL SERVICE FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
<b>ASSETS</b>				
Current assets:				
Cash/cash equivalents	\$ 1,279	\$ 174	\$ 76	\$ 559
Receivables (net)	2	-	-	-
Interfund loans receivable	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	301	-	66	37
Due from component units	6	-	28	30
Inventories	-	-	-	-
Securities lending collateral	-	-	-	-
Other current assets	1	-	-	62
Total current assets	1,589	174	170	688
Noncurrent assets:				
Long-term investments	-	-	-	-
Capital assets:				
Land	-	-	-	-
Land improvements	-	-	-	-
Buildings/improvements	-	-	-	-
Equipment	382	-	34	18
Construction in progress	-	79	-	-
Intangible assets	23	-	-	-
Less accumulated depreciation	(234)	-	(32)	(17)
Total capital assets	171	79	2	1
Total noncurrent assets	171	79	2	1
Total assets	1,760	253	172	689
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	183	47	16	182
Interfund loans payable	-	-	-	-
Due to other funds	64	5	70	24
Due to component units	-	-	-	6
Deferred revenue	-	-	-	-
Lease/installment purchase payable	-	-	-	-
Amounts held in custody for others	-	-	-	-
Securities lending liability	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	205	28	9	111
Total current liabilities	452	80	95	323
Noncurrent liabilities:				
Advances from other funds	-	-	-	-
Estimated insurance claims	-	-	-	-
Compensated absences payable	152	8	4	152
Total noncurrent liabilities	152	8	4	152
Total liabilities	604	88	99	475
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	171	79	2	1
Unrestricted	985	86	71	213
Total net assets	\$ 1,156	\$ 165	\$ 73	\$ 214

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 327	\$ 48	\$ 43	\$ 140	\$ 697	\$ 84	\$ 49,172
7	-	2	-	21	-	4,650
-	-	-	-	-	-	309
-	-	-	-	-	-	2
25	115	4	22	296	5	6,072
-	1	1	-	-	-	484
-	-	-	-	123	109	2,237
-	-	-	-	-	-	575
-	-	-	-	-	-	624
359	164	50	162	1,137	198	64,125
-	-	-	-	-	-	18,706
-	-	-	-	-	-	236
-	-	-	-	-	-	95
-	-	-	-	2,820	-	3,645
41	-	-	-	1,191	93	190,977
-	-	-	-	-	-	4,470
-	-	-	-	-	-	769
(25)	-	-	-	(948)	(58)	(111,687)
16	-	-	-	3,063	35	88,505
16	-	-	-	3,063	35	107,211
375	164	50	162	4,200	233	171,336
131	57	13	7	81	16	8,833
-	-	-	-	-	2	5,602
-	5	2	2	170	1	3,298
-	-	-	-	-	-	52
-	-	-	-	-	-	1,014
-	-	-	-	-	-	738
-	-	-	-	-	-	3
-	-	-	-	-	-	575
-	-	-	-	-	-	12,666
35	76	12	5	47	1	2,655
166	138	27	14	298	20	35,436
-	-	-	-	-	-	4,452
-	-	-	-	-	-	16,066
34	66	20	-	17	-	2,222
34	66	20	-	17	-	22,740
200	204	47	14	315	20	58,176
15	-	-	-	3,064	36	89,225
160	(40)	3	148	821	177	23,935
\$ 175	\$ (40)	\$ 3	\$ 148	\$ 3,885	\$ 213	\$ 113,160

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**
**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
<b>Operating revenues:</b>					
Charges for services	\$ 2,314	\$ 22,729	\$ 61	\$ 37,108	\$ -
Investment earnings	-	-	1,240	-	776
Securities lending income	-	-	47	-	14
Contributions/premiums	-	-	98,521	1	13,932
Other operating revenues	-	117	677	119	-
Total operating revenues	2,314	22,846	100,546	37,228	14,722
<b>Operating expenses:</b>					
Personal services	90	6,450	502	11,163	773
Contractual services	85	652	3,943	4,698	4,146
Supplies/materials	1,011	5,706	28	1,784	32
Benefits/claims	-	-	89,721	-	(1,453)
Depreciation	574	5,850	-	2,431	-
Amortization	-	-	27	743	4
Utilities/rent	12	132	20	6,669	63
Communications	6	8	70	5,215	20
Travel	13	34	11	189	11
Repair/maintenance	559	3,424	2	2,033	2
Interest expense	-	-	-	26	-
Securities lending expense	-	-	47	-	13
Other operating expenses	1	185	273	1,049	104
Total operating expenses	2,351	22,441	94,644	36,000	3,715
Operating income (loss)	(37)	405	5,902	1,228	11,007
<b>Nonoperating revenues (expenses):</b>					
Insurance proceeds	-	-	-	-	38
Gain (loss) on sale of capital assets	(394)	(13)	(1)	(14)	-
Federal indirect cost recoveries	-	-	-	-	-
Total nonoperating revenues (expenses)	(394)	(13)	(1)	(14)	38
Income (loss) before contributions and transfers	(431)	392	5,901	1,214	11,045
Transfers in	109	-	-	20	296
Transfers out	-	-	(614)	-	-
Change in net assets	(322)	392	5,287	1,234	11,341
Total net assets - July 1 - as previously reported	6,492	58,466	21,241	6,215	(9,710)
Prior period adjustments	-	558	(1)	599	-
Total net assets - July 1 - as restated	6,492	59,024	21,240	6,814	(9,710)
Total net assets - June 30	\$ 6,170	\$ 59,416	26,527	\$ 8,048	\$ 1,631

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 4,689	\$ 3,620	\$ 9,501	\$ 7,064	\$ 867	\$ 4,476	\$ 25	\$ 879
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	54	-	-	-	-	981	3
4,689	3,674	9,501	7,064	867	4,476	1,006	882
341	305	1,158	1,262	664	4,257	1,006	1,010
53	377	96	2,836	37	421	36	328
4,082	1,478	4,450	138	23	181	46	76
-	-	-	-	-	-	-	-
3	1,759	156	22	-	22	1	-
-	-	-	-	-	-	2	-
99	83	185	2,315	32	358	87	164
20	2	3,036	26	13	77	14	79
1	-	1	2	3	30	19	11
2	209	375	1,024	3	26	3	23
-	348	-	-	-	-	-	-
-	-	-	-	-	-	-	-
30	9	64	163	15	368	8	13
4,631	4,570	9,521	7,788	790	5,740	1,222	1,704
58	(896)	(20)	(724)	77	(1,264)	(216)	(822)
-	-	-	-	-	-	-	-
(5)	(208)	(116)	(41)	-	(11)	-	-
-	-	-	-	-	1,164	236	1,100
(5)	(208)	(116)	(41)	-	1,153	236	1,100
53	(1,104)	(136)	(765)	77	(111)	20	278
-	-	-	500	-	-	-	-
-	-	-	(48)	-	-	-	-
53	(1,104)	(136)	(313)	77	(111)	20	278
719	2,206	2,083	1,078	(29)	265	165	125
-	-	-	-	-	-	-	-
719	2,206	2,083	1,078	(29)	265	165	125
\$ 772	\$ 1,102	\$ 1,947	\$ 765	\$ 48	\$ 154	\$ 185	\$ 403

(Continued on Next Page)

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - Continued**
**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
<b>Operating revenues:</b>				
Charges for services	\$ 2,624	\$ 453	\$ 801	\$ 3,224
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Contributions/premiums	120	-	-	-
Other operating revenues	3	-	-	-
Total operating revenues	2,747	453	801	3,224
<b>Operating expenses:</b>				
Personal services	2,971	637	207	1,884
Contractual services	616	105	169	907
Supplies/materials	189	11	3	60
Benefits/claims	-	-	-	-
Depreciation	60	-	-	1
Amortization	-	-	-	-
Utilities/rent	121	26	13	144
Communications	40	8	419	60
Travel	25	2	1	31
Repair/maintenance	63	2	1	12
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Other operating expenses	173	9	60	389
Total operating expenses	4,258	800	873	3,488
Operating income (loss)	(1,511)	(347)	(72)	(264)
<b>Nonoperating revenues (expenses):</b>				
Insurance proceeds	-	-	-	-
Gain (loss) on sale of capital assets	(8)	-	-	-
Federal indirect cost recoveries	1,792	-	-	-
Total nonoperating revenues (expenses)	1,784	-	-	-
Income (loss) before contributions and transfers	273	(347)	(72)	(264)
Transfers in	14	382	-	-
Transfers out	-	-	-	-
Change in net assets	287	35	(72)	(264)
Total net assets - July 1 - as previously reported	842	130	145	478
Prior period adjustments (Note 3)	27	-	-	-
Total net assets - July 1 - as restated	869	130	145	478
Total net assets - June 30	\$ 1,156	\$ 165	\$ 73	\$ 214

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 604	\$ 1,183	\$ 259	\$ 107	\$ 3,463	\$ 225	\$ 106,276
-	-	-	-	-	-	2,016
-	-	-	-	-	-	61
-	-	-	-	-	-	112,574
1	-	-	-	-	31	1,986
605	1,183	259	107	3,463	256	222,913
664	932	170	114	954	106	37,620
102	100	30	1	8	15	19,761
224	28	19	-	2,211	147	21,927
-	-	-	-	-	-	88,268
3	-	-	-	205	4	11,091
-	-	-	-	-	-	776
116	61	26	-	68	6	10,800
8	16	10	1	2	3	9,153
27	4	12	-	1	2	430
391	4	-	-	54	25	8,237
-	-	-	-	-	-	374
-	-	-	-	-	-	60
5	8	8	-	6	1	2,941
1,540	1,153	275	116	3,509	309	211,438
(935)	30	(16)	(9)	(46)	(53)	11,475
-	-	-	-	-	-	38
-	-	-	-	-	-	(811)
-	-	-	-	-	-	4,292
-	-	-	-	-	-	3,519
(935)	30	(16)	(9)	(46)	(53)	14,994
1,009	-	-	-	-	-	2,330
-	-	-	-	-	-	(662)
74	30	(16)	(9)	(46)	(53)	16,662
87	(70)	19	157	3,931	266	95,301
14	-	-	-	-	-	1,197
101	(70)	19	157	3,931	266	96,498
\$ 175	\$ (40)	\$ 3	\$ 148	\$ 3,885	\$ 213	\$ 113,160

**COMBINING STATEMENT OF CASH FLOWS**
**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from sales and services	\$ 2,298	\$ 22,876	\$ 98,121	\$ 37,011	\$ 13,944
Payments to suppliers for goods and services	(1,611)	(10,052)	(4,019)	(21,477)	(4,289)
Payments to employees	(105)	(6,425)	(533)	(11,366)	(746)
Grant receipts	-	-	-	-	-
Cash payments for claims	-	-	(87,935)	-	(2,630)
Other operating revenues	-	-	515	120	-
Net cash provided by (used for) operating activities	582	6,399	6,149	4,288	6,279
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Payment of principal and interest on bonds and notes	-	-	-	-	-
Transfers to other funds	-	-	(614)	-	-
Transfers from other funds	109	-	-	20	296
Proceeds from interfund loans/advances	301	3,800	21	456	-
Payment of interfund loans/advances	(100)	(2,800)	-	(24)	-
Net cash provided by (used for) noncapital financing activities	310	1,000	(593)	452	296
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from insurance	-	-	-	-	38
Acquisition of capital assets	(798)	(7,398)	(9)	(2,270)	47
Proceeds from sale of capital assets	-	487	-	-	-
Principal and interest payments on bonds and notes	-	-	-	(142)	-
Net cash used for capital and related financing activities	(798)	(6,911)	(9)	(2,412)	85
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	-	-	(6,948)	-	-
Proceeds from sales or maturities of investments	-	-	1,117	-	-
Proceeds from securities lending transactions	-	-	47	-	(276)
Interest and dividends on investments	-	-	1,269	-	776
Payment of securities lending costs	-	-	(47)	-	276
Net cash provided by (used for) investing activities	-	-	(4,562)	-	776
Net increase (decrease) in cash and cash equivalents	94	488	985	2,328	7,436
Cash and cash equivalents, July 1	100	126	18,584	1,097	11,210
Cash and cash equivalents, June 30	\$ 194	\$ 614	\$ 19,569	\$ 3,425	\$ 18,646



ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 4,671 (4,329) (328) - - -	\$ 3,753 (2,057) (302) - - 54	\$ 9,346 (7,921) (1,150) - - -	\$ 7,002 (6,493) (1,270) - - -	\$ 867 (124) (685) - - -	\$ 4,456 (1,293) (4,113) 1,158 - -	\$ 83 (218) (992) 230 - 923	\$ 846 (700) (1,097) 1,179 - 3
14	1,448	275	(761)	58	208	26	231
-	(348)	-	-	-	-	-	-
-	-	-	(48)	-	-	-	-
-	-	-	500	-	-	-	-
146 (225)	14,645 (12,332)	-	- (5)	- (29)	- (2)	- (50)	-
(79)	1,965	-	447	(29)	(2)	(50)	-
-	-	-	-	-	-	-	-
(7)	(3,481)	(394)	(37)	-	(31)	(5)	-
-	315	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(7)	(3,166)	(394)	(37)	-	(31)	(5)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(72)	247	(119)	(351)	29	175	(29)	231
161	16	379	1,291	167	691	303	178
\$ 89	\$ 263	\$ 260	\$ 940	\$ 196	\$ 866	\$ 274	\$ 409

(Continued on Next Page)

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from sales and services	\$ 2,823	\$ 453	\$ 788	\$ 3,233
Payments to suppliers for goods and services	(1,260)	(150)	(657)	(1,581)
Payments to employees	(3,037)	(612)	(205)	(1,835)
Grant receipts	1,794	-	-	-
Cash payments for claims	-	-	-	-
Other operating revenues	3	-	-	-
Net cash provided by (used for) operating activities	323	(309)	(74)	(183)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payment of principal and interest on bonds and notes	-	-	-	-
Transfers to other funds	-	-	-	-
Transfers from other funds	14	382	-	-
Proceeds from interfund loans/advances	-	-	-	-
Payment of interfund loans/advances	-	-	-	-
Net cash provided by (used for) noncapital financing activities	14	382	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from insurance	-	-	-	-
Acquisition of capital assets	(35)	(79)	-	-
Proceeds from sale of capital assets	-	-	-	-
Principal and interest payments on bonds and notes	-	-	-	-
Net cash used for capital and related financing activities	(35)	(79)	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	-	-	-	-
Proceeds from sales or maturities of investments	-	-	-	-
Proceeds from securities lending transactions	-	-	-	-
Interest and dividends on investments	-	-	-	-
Payment of securities lending costs	-	-	-	-
Net cash provided by (used for) investing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	302	(6)	(74)	(183)
Cash and cash equivalents, July 1	977	180	150	742
Cash and cash equivalents, June 30	\$ 1,279	\$ 174	\$ 76	\$ 559

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ 628	\$ 1,175	\$ 267	\$ 107	\$ 3,436	\$ 225	\$ 218,409
(806)	(228)	(105)	(24)	(2,165)	(196)	(71,755)
(641)	(931)	(164)	(118)	(941)	(103)	(37,699)
-	-	-	-	-	-	4,361
-	-	-	-	-	-	(90,565)
1	-	-	-	-	31	1,650
(818)	16	(2)	(35)	330	(43)	24,401
-	-	-	-	-	-	(348)
-	-	-	-	-	-	(662)
1,009	-	-	-	-	-	2,330
-	-	-	-	-	2	19,371
-	-	-	-	(120)	-	(15,687)
1,009	-	-	-	(120)	2	5,004
-	-	-	-	-	-	38
-	-	-	-	-	(24)	(14,521)
-	-	-	-	-	-	802
-	-	-	-	-	-	(142)
-	-	-	-	-	(24)	(13,823)
-	-	-	-	-	-	(6,948)
-	-	-	-	-	-	1,117
-	-	-	-	-	-	(229)
-	-	-	-	-	-	2,045
-	-	-	-	-	-	229
-	-	-	-	-	-	(3,786)
191	16	(2)	(35)	210	(65)	11,796
136	32	45	175	487	149	37,376
\$ 327	\$ 48	\$ 43	\$ 140	\$ 697	\$ 84	\$ 49,172

(Continued on Next Page)

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	FWP EQUIPMENT	HIGHWAY EQUIPMENT	EMPLOYEE GROUP BENEFITS	INFO TECH SERVICES DIVISION	ADMIN INSURANCE
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (37)	\$ 405	\$ 5,902	\$ 1,228	\$ 11,007
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>					
Depreciation	574	5,850	-	2,431	-
Amortization	-	-	27	743	4
Interest expense	-	-	-	26	-
Securities lending expense	-	-	47	-	13
Investment earnings	-	-	(1,240)	-	(774)
Securities lending income	-	-	(47)	-	(14)
Federal indirect cost recoveries	-	-	-	-	-
Change in assets and liabilities:					
Decr (incr) in accounts receivable	-	30	(564)	(4)	-
Decr (incr) in due from other funds	(28)	1	(3)	(354)	5
Decr (incr) in due from component units	-	-	-	(20)	1
Decr (incr) in inventories	-	(68)	-	-	-
Decr (incr) in other assets	-	-	(6)	(196)	-
Incr (decr) in accounts payable	74	151	941	148	66
Incr (decr) in due to other funds	-	-	300	28	54
Incr (decr) in due to component units	-	3	-	(4)	32
Incr (decr) in deferred revenue	-	-	(39)	88	-
Incr (decr) in amounts held in custody for others	-	-	-	(27)	-
Incr (decr) in compensated absences payable	(1)	27	(11)	201	(4)
Incr (decr) in estimated claims	-	-	842	-	(4,111)
Net cash provided by (used for) operating activities	\$ 582	\$ 6,399	\$ 6,149	\$ 4,288	\$ 6,279
<b>Schedule of noncash transactions:</b>					
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ 738	\$ -
Incr (decr) in fair value of investments	-	-	163	-	-
Total noncash transactions	\$ -	\$ -	\$ 163	\$ 738	\$ -

ADMIN SUPPLY	MOTOR POOL	PRINT & MAIL SERVICES	BUILDINGS & GROUNDS	ADMIN CENTRAL SERVICES	LABOR CENTRAL SERVICES	COMMERCE CENTRAL SERVICES	OPI CENTRAL SERVICES
\$ 58	\$ (896)	\$ (20)	\$ (724)	\$ 77	\$ (1,264)	\$ (216)	\$ (822)
3	1,756	156	21	-	22	1	-
-	-	-	-	-	-	-	-
-	348	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	1,161	236	1,102
(191)	-	(2)	(3)	-	1	-	-
(1)	42	(154)	(54)	4	75	(6)	43
(11)	-	1	(4)	-	(3)	1	-
(2)	(13)	(73)	-	-	-	-	-
1	-	146	(1)	-	-	-	-
147	91	162	(3)	(2)	92	(1)	(94)
1	118	57	2	3	28	1	(3)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9	2	2	5	(24)	96	10	5
-	-	-	-	-	-	-	-
\$ 14	\$ 1,448	\$ 275	\$ (761)	\$ 58	\$ 208	\$ 26	\$ 231
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(Continued on Next Page)

**COMBINING STATEMENT OF CASH FLOWS - Continued**
**INTERNAL SERVICE FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	DEQ INDIRECT COST POOL	PAYROLL PROCESSING	WARRANT PROCESSING	INVESTMENT DIVISION
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (1,511)	\$ (347)	\$ (72)	\$ (264)
<b>Adjustments to reconcile operating income to net cash provided by (used for) operating activities:</b>				
Depreciation	60	-	-	1
Amortization	-	-	-	-
Interest expense	-	-	-	-
Securities lending expense	-	-	-	-
Investment earnings	-	-	-	-
Securities lending income	-	-	-	-
Federal indirect cost recoveries	1,792	-	-	-
Change in assets and liabilities:				
Decr (incr) in accounts receivable	(2)	-	-	-
Decr (incr) in due from other funds	(48)	-	(12)	9
Decr (incr) in due from component units	8	-	(1)	-
Decr (incr) in inventories	-	-	-	-
Decr (incr) in other assets	-	-	-	(31)
Incr (decr) in accounts payable	(60)	31	4	71
Incr (decr) in due to other funds	44	-	7	4
Incr (decr) in due to component units	(3)	-	-	1
Incr (decr) in deferred revenue	-	-	-	-
Incr (decr) in amounts held in custody for others	-	-	-	-
Incr (decr) in compensated absences payable	43	7	-	26
Incr (decr) in estimated claims	-	-	-	-
Net cash provided by (used for) operating activities	\$ 323	\$ (309)	\$ (74)	\$ (183)
<b>Schedule of noncash transactions:</b>				
Capital asset acquisitions from capital leases	\$ -	\$ -	\$ -	\$ -
Incr (decr) in fair value of investments	-	-	-	-
Total noncash transactions	\$ -	\$ -	\$ -	\$ -

AIRCRAFT OPERATION	JUSTICE LEGAL SERVICES	PERSONNEL TRAINING	DEBT COLLECTION	PRISON INDUSTRIES	OTHER INTERNAL SERVICES	TOTAL
\$ (935)	\$ 30	\$ (16)	\$ (9)	\$ (46)	\$ (53)	\$ 11,475
3	-	-	-	205	4	11,087
-	-	-	-	-	-	774
-	-	-	-	-	-	374
-	-	-	-	-	-	60
-	-	-	-	-	-	(2,014)
-	-	-	-	-	-	(61)
-	-	-	-	-	-	4,291
7	-	-	-	(10)	-	(738)
16	(17)	8	(22)	(12)	-	(508)
-	-	(1)	-	-	-	(29)
-	-	-	-	6	(4)	(154)
-	-	-	-	-	-	(87)
84	3	3	6	16	13	1,943
-	2	-	(11)	159	(3)	791
-	-	-	-	-	-	29
-	-	-	-	-	-	49
-	-	-	-	-	-	(27)
7	(2)	4	1	12	-	415
-	-	-	-	-	-	(3,269)
\$ (818)	\$ 16	\$ (2)	\$ (35)	\$ 330	\$ (43)	\$ 24,401
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	738
-	-	-	-	-	-	163
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	901

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## PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

These funds provide retirement, disability, death, and lump-sum payments to retirement system members. A brief description of each fund follows:

**Public Employee Retirement System - Defined Benefit Retirement Plan** – This fund provides retirement benefits to substantially all public employees not covered by another public system.

**Municipal Police Officers Retirement System** – This fund provides retirement benefits to all municipal police officers covered by the plan.

**Firefighters Unified Retirement System** – This fund provides retirement benefits for firefighters employed by first and second- class cities and other cities that wish to adopt the plan.

**Sheriffs Retirement System** – This fund provides retirement benefits for sheriffs and State Department of Justice investigators.

**Highway Patrol Officers Retirement System** – This fund provides retirement benefits for all members of the Montana Highway Patrol.

**Judges Retirement System** – This fund provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge.

**Game Wardens & Peace Officers Retirement System** – This fund provides retirement benefits for all persons employed as game wardens, supervisory personnel, and state peace officers.

**Volunteer Firefighters Compensation Act** – This fund provides medical benefits and pension, disability, and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the State.

**Public Employee Retirement System - Defined Contribution Retirement Plan** – Members of the defined contribution retirement plan decide how to invest their contributions and a portion of their employer contributions in the available investment options.

**Public Employee 457 Plan** – All employees of the State, Montana University System, and contracting political subdivisions are eligible to participate in this plan. The 457 plan is a voluntary, tax-deferred retirement plan designed to supplement state service retirement, Social Security, and other retirement plans and savings.

**Teachers Retirement System** – This fund provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system.

**Voluntary Employee Benefit Association** – This fund provides members with individual health care expense trust accounts to pay the qualified health care expenses of members and their dependents and beneficiaries.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
<b>ASSETS</b>						
Cash/cash equivalents	\$ 93,689	\$ 4,339	\$ 4,247	\$ 5,289	\$ 2,139	\$ 1,520
Receivables (net):						
Accounts receivable	1,224	95	79	198	-	-
Interest	7,175	342	326	331	181	106
Due from primary government	29	8,182	7,533	-	-	-
Due from other PERB plans	324	-	-	-	-	-
Long-term notes/loans receivable	135	-	-	-	-	-
Total receivables	8,887	8,619	7,938	529	181	106
Investments at fair value:						
Equity in pooled investments	3,367,536	165,079	157,225	159,936	86,474	51,067
Other investments	51,733	-	-	-	-	-
Total investments	3,419,269	165,079	157,225	159,936	86,474	51,067
Securities lending collateral	67,426	3,349	3,189	3,268	1,760	1,044
Capital assets:						
Land	-	-	-	-	-	-
Buildings/improvements	-	-	-	-	-	-
Equipment	5	-	-	-	-	-
Accumulated depreciation	(5)	-	-	-	-	-
Intangible assets	103	1	1	2	1	1
Total capital assets	103	1	1	2	1	1
Other assets	-	-	-	-	-	-
Total assets	3,589,374	181,387	172,600	169,024	90,555	53,738
<b>LIABILITIES</b>						
Accounts payable	503	-	-	18	1	-
Due to primary government	50	1	-	-	-	-
Due to other PERB plans	94	63	52	70	26	7
Due to component units	-	-	-	-	-	-
Advances from primary government	-	-	-	-	-	-
Deferred revenue	71	-	4	-	-	-
Securities lending liability	67,426	3,349	3,189	3,268	1,760	1,044
Compensated absences payable	248	-	-	-	-	-
Total liabilities	68,392	3,413	3,245	3,356	1,787	1,051
<b>NET ASSETS</b>						
Held in trust for pension benefits and other purposes	\$ 3,520,982	\$ 177,974	\$ 169,355	\$ 165,668	\$ 88,768	\$ 52,687

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)							
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL	
\$ 2,791	\$ 1,875	\$ 1,024	\$ 350	\$ 71,803	\$ 382	\$	189,448
-	-	-	-	15,278	13		16,887
115	46	-	-	5,556	-		14,178
-	-	-	-	209	-		15,953
-	-	94	-	-	-		418
-	-	-	-	-	-		135
115	46	94	-	21,043	13		47,571
56,614	21,563	-	-	2,607,714	-		6,673,208
-	-	30,934	247,944	44,769	482		375,862
56,614	21,563	30,934	247,944	2,652,483	482		7,049,070
1,158	464	14	5	51,930	-		133,607
-	-	-	-	35	-		35
-	-	-	-	158	-		158
-	-	-	-	147	-		152
-	-	-	-	(266)	-		(271)
2	3	2	105	607	5		833
2	3	2	105	681	5		907
-	-	-	-	4	-		4
60,680	23,951	32,068	248,404	2,797,944	882		7,420,607
14	-	8	156	89	13		802
-	-	21	1	29	-		102
44	46	11	5	-	-		418
-	-	24	-	-	-		24
-	-	1,360	-	-	-		1,360
-	-	-	-	-	-		75
1,158	464	14	5	51,930	-		133,607
-	-	10	11	125	-		394
1,216	510	1,448	178	52,173	13		136,782
\$ 59,464	\$ 23,441	\$ 30,620	\$ 248,226	\$ 2,745,771	\$ 869	\$	7,283,825

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS**  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
 (amounts expressed in thousands)

	PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)					
	PUBLIC EMPLOYEES DEFINED BENEFIT	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES
<b>ADDITIONS</b>						
Contributions/premiums:						
Employer	\$ 63,446	\$ 4,035	\$ 3,328	\$ 3,524	\$ 2,905	\$ 1,229
Employee	66,002	2,546	2,471	3,683	847	333
Other contributions	710	8,185	7,534	38	281	-
Net investment earnings:						
Investment earnings	298,565	14,323	13,629	13,788	7,575	4,416
Administrative investment expense	(5,008)	(237)	(226)	(227)	(125)	(73)
Securities lending income	5,131	259	247	249	137	80
Securities lending expense	(5,011)	(253)	(241)	(244)	(134)	(78)
Charges for services	-	-	-	-	-	-
Other additions	4	-	-	-	-	-
Payment from State of Montana	25,000	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Total additions	448,839	28,858	26,742	20,811	11,486	5,907
<b>DEDUCTIONS</b>						
Benefits	153,887	12,032	11,040	6,152	6,364	1,743
Refunds	13,322	599	46	383	90	-
Administrative expenses:						
Personal services	1,426	-	-	-	-	-
Contractual services	808	2	2	2	2	2
Supplies/materials	51	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Amortization	251	3	3	3	3	3
Utilities/rent	186	-	-	-	-	-
Communications	122	-	-	-	-	-
Travel	41	-	-	2	-	-
Repair/maintenance	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-
Other operating expenses	-	63	52	70	26	7
Local assistance	-	-	-	-	-	-
Transfers to ORP	183	-	-	-	-	-
Transfers to PERS-DCRP	1,064	-	-	-	-	-
Total deductions	171,341	12,699	11,143	6,612	6,485	1,755
Change in net assets	277,498	16,159	15,599	14,199	5,001	4,152
Net assets - July 1 - as previously reported	3,243,419	161,815	153,756	151,469	83,767	48,535
Prior period adjustments	65	-	-	-	-	-
Net assets - July 1 - as restated	3,243,484	161,815	153,756	151,469	83,767	48,535
Net assets - June 30	\$ 3,520,982	\$ 177,974	\$ 169,355	\$ 165,668	\$ 88,768	\$ 52,687

PUBLIC EMPLOYEES RETIREMENT BOARD (PERB)						
GAME WARDENS/ PEACE OFFICERS	VOLUNTEER FIRE- FIGHTERS	PUBLIC EMPLOYEES DEFINED CONTRIBUTION	PUBLIC EMPLOYEES 457 PLAN	TEACHERS RETIREMENT SYSTEM	VOLUNTARY EMPLOYEE BENEFIT ASSOCIATION	TOTAL
\$ 2,391	\$ 1,610	\$ 2,319	\$ 52	\$ 58,268	\$ 815	\$ 143,922
3,007	-	3,700	16,990	53,293	-	152,872
20	-	-	-	693	-	17,461
4,668	1,884	2,098	4,092	228,556	(113)	593,481
(76)	(32)	-	(473)	(3,860)	-	(10,337)
86	34	1	-	3,919	-	10,143
(85)	(34)	(1)	-	(3,827)	-	(9,908)
-	-	223	209	-	-	432
-	-	264	-	4	-	272
-	-	-	-	100,000	-	125,000
-	-	-	-	-	233	233
10,011	3,462	8,604	20,870	437,046	935	1,023,571
1,834	1,564	1,571	11,443	171,957	336	379,923
490	-	-	-	4,876	-	19,806
-	-	88	86	826	21	2,447
2	-	337	778	428	46	2,409
-	-	3	2	33	-	89
-	-	-	-	5	-	5
3	1	3	48	85	1	407
-	-	14	12	45	-	257
-	-	4	8	39	-	173
-	-	4	4	12	-	63
-	-	-	-	56	-	56
-	-	57	-	-	1	58
44	46	12	4	50	15	389
-	11	-	-	-	-	11
-	-	-	-	-	-	183
-	-	-	-	-	-	1,064
2,373	1,622	2,093	12,385	178,412	420	407,340
7,638	1,840	6,511	8,485	258,634	515	616,231
51,826	21,601	24,109	239,405	2,487,137	354	6,667,193
-	-	-	336	-	-	401
51,826	21,601	24,109	239,741	2,487,137	354	6,667,594
\$ 59,464	\$ 23,441	\$ 30,620	\$ 248,226	\$ 2,745,771	\$ 869	\$ 7,283,825

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## PRIVATE-PURPOSE TRUST FUNDS

Private-purpose trust funds are used to account for assets held by the State in a trustee capacity, where both the trust principal and earnings benefit individuals, private organizations, or other governments. A brief description of each private-purpose trust fund follows:

**Escheated Property** – This fund accounts for property that has reverted to the State due to the absence of legal claimants or heirs and is held in trust for distribution to these heirs when identified.

**Plan 1 Securities** – This fund accounts for the unliquidated security bonds held on deposit from self-insured employers. These funds either revert to the employer at a later date or are cashed and assumed by the State to be used on the employee's behalf.

**Woodville Highway Replacement** – This fund accounts for money paid to the Montana Department of Transportation by the Anaconda Company to provide the government of Butte-Silver Bow with traffic facilities. This money is held on deposit for the city/county government and is distributed to them at their request.

**Moore-Sipple Connector** – Money is held in trust to ensure the continued operation of the Moore-Sipple Connector. The balance in this fund reverts to the railroad company if the line is in operation until 2010. As the result of a court order, until this date is reached, the interest earnings on this money are provided to Central Montana Rail, Inc. for use in operating the railroad.

**Environmental Reclamation** – This fund accounts for environmental reclamation bonds held in trust to be either returned to the company upon successful reclamation of mining properties and related impacts or to be used by the State to complete the related reclamation process.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**PRIVATE-PURPOSE TRUST FUNDS**

JUNE 30, 2006

(amounts expressed in thousands)

	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
<b>ASSETS</b>			
Cash/cash equivalents	\$ 717	\$ -	\$ 42
Securities lending collateral	10	-	1
Other assets	-	5,169	-
Total assets	727	5,169	43
<b>LIABILITIES</b>			
Accounts payable	1	-	-
Securities lending liability	10	-	1
Total liabilities	11	-	1
<b>NET ASSETS</b>			
Held in trust for other purposes	\$ 716	\$ 5,169	\$ 42



MOORE- SIPPLE CONNECTOR		ENVIRONMENTAL RECLAMATION		TOTAL
\$	242	\$	1,596	\$ 2,597
	4		14	29
	-		2,678	7,847
	246		4,288	10,473
	-		2	3
	4		14	29
	4		16	32
\$	242	\$	4,272	\$ 10,441

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**
**PRIVATE-PURPOSE TRUST FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

	ESCHEATED PROPERTY	PLAN 1 SECURITIES	WOODVILLE HIGHWAY REPLACEMENT
<b>ADDITIONS</b>			
Net investment earnings:			
Investment earnings	\$ 23	\$ -	\$ 1
Securities lending income	-	-	-
Securities lending expense	-	-	-
Grants/contractions/donations	-	527	-
Other additions	1,479	-	-
Total additions	1,502	527	1
<b>DEDUCTIONS</b>			
Distributions	1,312	-	-
Administrative expenses:			
Grants	-	-	-
Total deductions	1,312	-	-
Change in net assets	190	527	1
Net assets - July 1 - as previously reported	526	4,642	41
Prior period adjustments	-	-	-
Net assets - July 1 - as restated	526	4,642	41
Net assets - June 30	\$ 716	\$ 5,169	\$ 42

MOORE- SIPPLE CONNECTOR		ENVIRONMENTAL RECLAMATION	TOTAL
\$	10	\$ 34	\$ 68
	-	1	1
	-	(1)	(1)
	-	-	527
	-	1,319	2,798
	10	1,353	3,393
	-	1,168	2,480
	8	-	8
	8	1,168	2,488
	2	185	905
	240	4,153	9,602
	-	(66)	(66)
	240	4,087	9,536
\$	242	\$ 4,272	\$ 10,441

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## AGENCY FUNDS

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments. A brief description of each agency fund follows:

**Performance Deposits** – This fund accounts for deposits held by the State pending compliance with performance agreements.

**Central Payroll** – This fund accounts for the accumulation of state employee payroll and withholding by the Department of Administration, pending remittance to employees and other appropriate third parties.

**Criminal Offender Restitution** – Accounts for restitution payments received from prisoners and disbursed to their victims.

**Custodial Accounts** – This fund accounts for monies belonging to state institution residents, students of the School for the Deaf and Blind, and participants in the foster children and protective services programs. The fund also accounts for balances held by the Office of the Commissioner of Higher Education for remittance, on behalf of eligible employees of the Montana University System, to the TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equities Fund) retirement fund. Department of Transportation employee union pension monies are held in this fund, awaiting remittance to the corresponding union. This fund also accounts for wages collected from employers on behalf of employee wage complaints filed under authority of the Montana Wages and Wage Protection Act.

**Child Support Collections** – This fund accounts for payments from parents under the Child Support Enforcement Program administered by the Department of Public Health and Human Services.

**Uncleared Collections** – This fund accounts for resources held pending distribution to other funds and local governments. The balances in this fund related to other fund types are distributed to those funds each fiscal year-end. Balances remaining relate to external parties.

**Intergovernmental** – This fund accounts for resources that flow through state agencies to federal and local governments.

**Debt Collection** – This fund accounts for amounts due to the State which have been written off as uncollectible by the receiving agency. The Department of Revenue continues to attempt to collect amounts owing for a period of time after they are deemed uncollectible by the receiving agency.

**Milk Passthrough** – This fund accounts for the distribution of the proceeds from the sale of pooled milk.

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**
**AGENCY FUNDS**

JUNE 30, 2006

(amounts amounts expressed in thousands)

	PERFORMANCE DEPOSITS	CENTRAL PAYROLL	CRIMINAL OFFENDER RESTITUTION	CUSTODIAL ACCOUNTS	CHILD SUPPORT COLLECTIONS
<b>ASSETS</b>					
Cash/cash equivalents	\$ 2,556	\$ 263	\$ 303	\$ 1,269	\$ 788
Receivables (net):					
Accounts receivable	-	1	-	28	366
Total receivables	-	1	-	28	366
Securities lending collateral	-	-	-	2	-
Other assets	10,592	-	-	-	-
Total assets	13,148	264	303	1,299	1,154
<b>LIABILITIES</b>					
Accounts payable	110	-	2	110	120
Amounts held in custody for others	13,038	264	301	1,187	1,034
Securities lending liability	-	-	-	2	-
Total liabilities	13,148	264	303	1,299	1,154
<b>NET ASSETS</b>					
Held in trust for pension benefits and other purposes	\$ -	\$ -	\$ -	\$ -	\$ -

UNCLEARED COLLECTIONS	INTER- GOVERNMENTAL	DEBT COLLECTION	MILK PASS- THROUGH	TOTAL
\$ 234	\$ 137	\$ 231	\$ 54	\$ 5,835
-	-	13	-	408
-	-	13	-	408
-	-	-	-	2
-	-	-	-	10,592
234	137	244	54	16,837
226	99	-	-	667
8	38	244	54	16,168
-	-	-	-	2
234	137	244	54	16,837
\$ -	\$ -	\$ -	\$ -	\$ -

## COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

## AGENCY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<b>PERFORMANCE DEPOSITS:</b>				
<b>ASSETS</b>				
Cash/cash equivalents	\$ 5,620	\$ 273,979	\$ 277,043	\$ 2,556
Receivables (net)	-	13,357	13,357	-
Securities lending collateral	-	70	70	-
Other assets	12,201	13,781	15,390	10,592
Total assets	\$ 17,821	\$ 301,187	\$ 305,860	\$ 13,148
<b>LIABILITIES</b>				
Accounts payable	\$ 44	\$ 21,888	\$ 21,822	\$ 110
Amounts held in custody for others	17,777	61,394	66,133	13,038
Securities lending liability	-	70	70	-
Other liabilities	-	144,100	144,100	-
Total liabilities	\$ 17,821	\$ 227,452	\$ 232,125	\$ 13,148
<b>CENTRAL PAYROLL:</b>				
<b>ASSETS</b>				
Cash/cash equivalents	\$ 315	\$ 645,200	\$ 645,252	\$ 263
Receivables (net)	1	-	-	1
Total assets	\$ 316	\$ 645,200	\$ 645,252	\$ 264
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 10,542	\$ 10,542	\$ -
Amounts held in custody for others	316	645,292	645,344	264
Total liabilities	\$ 316	\$ 655,834	\$ 655,886	\$ 264
<b>CRIMINAL OFFENDER RESTITUTION:</b>				
<b>ASSETS</b>				
Cash/cash equivalents	\$ 257	\$ 964	\$ 918	\$ 303
Receivables (net)	345	3	348	-
Total assets	\$ 602	\$ 967	\$ 1,266	\$ 303
<b>LIABILITIES</b>				
Accounts payable	\$ 347	775	1,120	2
Amounts held in custody for others	255	3,628	3,582	301
Total liabilities	\$ 602	\$ 4,403	\$ 4,702	\$ 303
<b>CUSTODIAL ACCOUNTS:</b>				
<b>ASSETS</b>				
Cash/cash equivalents	\$ 1,019	\$ 5,462	\$ 5,212	\$ 1,269
Receivables (net)	-	28	-	28
Securities lending collateral	-	2	-	2
Total assets	\$ 1,019	\$ 5,492	\$ 5,212	\$ 1,299
<b>LIABILITIES</b>				
Accounts payable	\$ 4	\$ 687	\$ 581	\$ 110
Amounts held in custody for others	1,015	9,814	9,642	1,187
Securities lending liability	-	2	-	2
Total liabilities	\$ 1,019	\$ 10,503	\$ 10,223	\$ 1,299

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FUND	BALANCE JUNE 30, 2005		ADDITIONS		DEDUCTIONS		BALANCE JUNE 30, 2006	
CHILD SUPPORT COLLECTIONS:								
ASSETS								
Cash/cash equivalents	\$	552	\$	74,501	\$	74,265	\$	788
Receivables (net)		300		97		31		366
Total assets	\$	852	\$	74,598	\$	74,296	\$	1,154
LIABILITIES								
Accounts payable	\$	106	\$	41,297	\$	41,283	\$	120
Amounts held in custody for others		746		74,481		74,193		1034
Other liabilities		-		16		16		-
Total liabilities	\$	852	\$	115,778	\$	115,476	\$	1,154
UNCLEARED COLLECTIONS:								
ASSETS								
Cash/cash equivalents	\$	162	\$	12,811,681	\$	12,811,609	\$	234
Receivables (net)		-		78,503		78,503		-
Investments		-		117		117		-
Total assets	\$	162	\$	12,890,301	\$	12,890,229	\$	234
LIABILITIES								
Accounts payable	\$	156	\$	1,670	\$	1,600	\$	226
Amounts held in custody for others		6		818		816		8
Other liabilities		-		701,493		701,493		-
Total liabilities	\$	162	\$	703,981	\$	703,909	\$	234
INTERGOVERNMENTAL:								
ASSETS								
Cash/cash equivalents	\$	168	\$	2,440	\$	2,471	\$	137
Total assets	\$	168	\$	2,440	\$	2,471	\$	137
LIABILITIES								
Accounts payable	\$	104	\$	2,287	\$	2,292	\$	99
Amounts held in custody for others		64		1,718		1,744		38
Total liabilities	\$	168	\$	4,005	\$	4,036	\$	137
DEBT COLLECTION:								
ASSETS								
Cash/cash equivalents	\$	111	\$	2,533	\$	2,413	\$	231
Receivables (net)		13		11		11		13
Total assets	\$	124	\$	2,544	\$	2,424	\$	244
LIABILITIES								
Accounts payable	\$	1	\$	2,857	\$	2,858	\$	-
Amounts held in custody for others		123		2,044		1,923		244
Other liabilities		-		117		117		-
Total liabilities	\$	124	\$	5,018	\$	4,898	\$	244

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**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - Continued**
**AGENCY FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(amounts expressed in thousands)

FUND	BALANCE JUNE 30, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<b>MILK PASSTHROUGH:</b>				
<b>ASSETS</b>				
Cash/cash equivalents	\$ 54	\$ 898	\$ 898	\$ 54
Total assets	\$ 54	\$ 898	\$ 898	\$ 54
<b>LIABILITIES</b>				
Accounts payable	\$ 50	\$ 848	\$ 898	\$ -
Amounts held in custody for others	4	948	898	54
Total liabilities	\$ 54	\$ 1,796	\$ 1,796	\$ 54

**TOTAL - ALL AGENCY FUNDS**
**ASSETS**

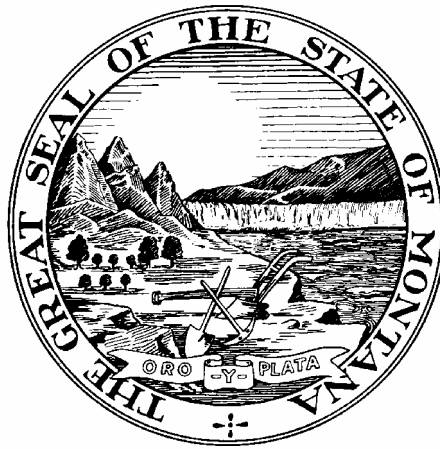
Cash/cash equivalents	\$ 8,258	\$ 13,817,658	\$ 13,820,081	\$ 5,835
Receivables (net)	659	91,999	92,250	408
Investments	-	117	117	-
Securities lending collateral	-	72	70	2
Other assets	12,201	13,781	15,390	10,592
Total assets	\$ 21,118	\$ 13,923,627	\$ 13,927,908	\$ 16,837

**LIABILITIES**

Accounts payable	\$ 812	\$ 82,851	\$ 82,996	\$ 667
Amounts held in custody for others	20,306	800,137	804,275	16,168
Securities lending liability	-	72	70	2
Other liabilities	-	845,726	845,726	-
Total liabilities	\$ 21,118	\$ 1,728,786	\$ 1,733,067	\$ 16,837

# STATISTICAL SECTION

For the fiscal year ended June 30, 2006, the State adopted GASB Statement 44, *Economic Condition Reporting: The Statistical Section*. Statement 44 amended portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, related to the preparation of the statistical section.



**SCHEDULE 1 – NET ASSETS BY COMPONENT**

Last Five Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities					
Invested in capital assets, net of related debt	\$ 814,026	\$2,049,489	\$2,250,177	\$2,528,808	\$2,842,708
Restricted	1,742,193	1,817,193	1,858,088	2,159,185	2,202,592
Unrestricted	140,044	177,161	222,829	404,724	647,182
Total governmental activities net assets	\$2,696,263	\$4,043,843	\$4,331,094	\$5,092,717	\$5,692,482
Business-type activities					
Invested in capital assets, net of related debt	\$ 12,496	\$ 9,084	\$ 8,925	\$ 9,670	\$ 8,703
Restricted	203,710	202,268	212,473	240,514	269,687
Unrestricted	17,223	19,251	14,909	16,672	18,539
Total business-type activities net assets	\$ 233,429	\$ 230,603	\$ 236,307	\$ 266,856	\$ 296,929
Primary government					
Invested in capital assets, net of related debt	\$ 826,522	\$2,058,573	\$2,259,102	\$2,538,478	\$2,851,411
Restricted	1,945,903	2,019,461	2,070,561	2,399,699	2,472,279
Unrestricted	157,267	196,412	237,738	421,396	665,721
Total primary government net assets	\$2,929,692	\$4,274,446	\$4,567,401	\$5,359,573	\$5,989,411

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.

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**SCHEDULE 2 – CHANGE IN NET ASSETS**

Last Five Fiscal Years

(accrual basis of accounting, amounts expressed in thousands)

Expenses	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government	\$ 248,089	\$ 280,740	\$ 285,781	\$ 305,819	\$ 525,981
Public safety/corrections	205,983	194,885	227,786	258,610	245,810
Transportation	169,282	286,181	400,034	281,074	216,942
Health/social services	1,086,012	1,023,893	1,109,045	1,182,281	1,270,056
Education/cultural	845,324	899,575	874,846	900,542	976,046
Resource/recreation/environment	108,642	234,848	258,057	197,539	142,460
Economic development/assistance	164,761	169,270	144,687	144,777	150,449
Interest on long-term debt	22,763	19,910	15,088	14,375	19,569
Total governmental activities expenses	2,850,856	3,109,302	3,315,324	3,285,017	3,547,313
Business-type activities:					
Unemployment Insurance	83,944	92,639	93,882	75,291	72,661
Liquor Stores	38,074	40,097	42,827	45,503	50,514
State Lottery	26,585	27,320	28,669	27,681	31,020
Economic Development Bonds	3,251	2,426	2,197	2,630	3,441
Hail Insurance	2,045	2,029	1,949	3,153	4,632
General Government Services	11,134	14,177	48,395	50,329	51,017
Prison Funds	5,444	4,515	4,244	5,268	5,356
MUS Group Insurance	34,594	35,906	39,690	40,524	52,139
MUS Workers Compensation	-	-	2,552	2,842	2,978
Total business-type activities expenses	205,071	219,109	264,405	253,221	273,758
Total primary government expenses	\$ 3,055,927	\$ 3,328,411	\$ 3,579,729	\$ 3,538,238	\$ 3,821,071
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
General government	\$ 38,368	\$ 42,849	\$ 59,384	\$ 49,637	\$ 59,166
Public safety/corrections	122,840	124,901	159,397	146,746	150,787
Transportation	32,269	61,316	33,943	38,101	31,766
Health/social services	40,847	31,074	32,983	31,467	30,022
Education/cultural	69,242	69,228	28,922	30,499	107,096
Resource/recreation/environment	45,787	67,380	137,714	121,539	77,064
Economic development/assistance	15,261	17,835	22,102	25,995	31,866
Operating grants and contributions	1,080,374	1,170,703	1,271,515	1,391,026	1,371,109
Capital grants and contributions	280,489	308,021	290,045	319,434	305,345
Total governmental activities program revenues	1,725,477	1,893,757	2,034,005	2,154,444	2,164,221
Business-type activities:					
Charges for services:					
Unemployment Insurance	59,771	66,493	67,873	72,866	76,754
Liquor Stores	45,630	46,955	49,521	52,081	58,975
State Lottery	33,670	34,696	36,740	33,815	39,923
Economic Development Bonds	13	19	8	5	7
Hail Insurance	301	2,568	3,748	7,404	3,057
General Government Services	11,202	12,658	13,197	14,244	15,589
Prison Funds	5,583	4,371	5,140	5,233	5,717
MUS Group Insurance	33,601	38,743	42,252	47,739	54,164
MUS Workers Compensation	-	-	2,424	2,978	3,543
Operating grants and contributions	29,335	10,442	55,487	58,433	58,051
Capital grants and contributions	602	510	177	159	378
Total business-type activities program revenues	219,708	217,185	493,752	294,957	316,158
Total primary government program revenues	\$ 1,945,257	\$ 2,110,942	\$ 2,527,757	\$ 2,449,401	\$ 2,480,379

	Fiscal Year				
	2002	2003	2004	2005	2006
Net (expense)/revenue					
Governmental activities	\$(1,125,379)	\$(1,215,545)	\$(1,281,319)	\$(1,130,573)	\$(1,383,092)
Business-type activities	14,637	(1,924)	229,347	41,736	42,400
Total primary government net expense	\$(1,110,742)	\$(1,217,469)	\$(1,051,972)	\$(1,088,837)	\$(1,340,692)
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes					
Property	\$ 167,488	\$ 170,803	\$ 164,505	\$ 186,229	\$ 194,617
Fuel	191,248	190,030	198,332	190,897	212,276
Natural resource	96,336	111,776	131,053	191,723	260,382
Individual income	525,647	540,926	619,043	729,459	760,981
Corporate income	69,176	44,394	69,685	101,834	153,574
Other	188,256	201,929	253,953	257,526	289,978
Unrestricted grants and contributions	-	-	-	-	4,158
Settlements	58,549	35,754	25,181	28,313	28,248
Unrestricted investment earnings	151,716	206,970	32,734	52,792	36,188
Gain on sale of capital assets	(7,532)	311	204	34	53
Miscellaneous	4,460	24,045	6,412	4,358	4,741
Transfers	26,756	32,366	30,812	29,871	34,802
Total governmental activities	1,472,100	1,559,844	1,531,914	1,773,036	1,979,998
Business-type activities:					
Taxes					
Other	12,907	13,650	14,621	15,624	17,317
Unrestricted investment earnings	16,382	16,028	319	190	1,016
Gain on sale of capital assets	(3)	-	-	-	-
Miscellaneous	1,040	5,750	9,956	2,945	4,146
Transfers	(26,756)	(32,366)	(30,812)	(29,871)	(34,802)
Total business-type activities	3,570	3,062	(5,916)	(11,112)	(12,323)
Total primary government	1,475,670	1,562,906	1,525,998	1,761,924	1,967,675
<b>Change in Net Assets</b>					
Governmental activities	346,721	344,299	250,595	642,463	596,906
Business-type activities	18,207	1,138	223,431	30,624	30,077
Total primary government	\$ 364,928	\$ 345,437	\$ 474,026	\$ 673,087	\$ 626,983

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement 34 in fiscal year 2002.

**SCHEDULE 3 – FUND BALANCES, GOVERNMENTAL FUNDS**

Last Five Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 7,927	\$ 8,056	\$ 8,903	\$ 10,118	\$ 11,533
Unreserved	81,316	43,065	132,873	289,675	408,580
Total general fund	\$ 89,243	\$ 51,121	\$ 141,776	\$ 299,793	\$ 420,113
All other governmental funds					
Reserved	\$1,512,978	\$1,650,265	\$2,199,647	\$2,421,876	\$2,431,304
Unreserved, reported in:					
Special revenue funds	437,188	501,679	(83,891)	(51,010)	(53,266)
Debt service funds	21,985	10,731	7,003	5,456	6,783
Capital project funds	13,487	16,935	10,661	8,721	47,272
Total all other governmental funds	\$1,985,638	\$2,179,610	\$2,133,420	\$2,385,043	\$2,432,093

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.



**SCHEDULE 4 – CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**

Last Five Fiscal Years

(modified accrual basis of accounting, amounts expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
<b>Revenues</b>					
Licenses/permits	\$ 202,490	\$ 210,611	\$ 240,612	\$ 245,244	\$ 259,073
Taxes	1,229,613	1,250,187	1,416,392	1,627,858	1,880,838
Charges for services/fines/forfeits/settlements	172,326	157,937	200,590	145,235	162,520
Investment earnings	145,984	204,406	49,363	143,937	62,977
Sale of documents/merchandise/property	15,571	13,104	31,687	22,655	21,412
Rentals/leases/royalties	24,438	28,324	22,868	43,723	63,318
Grants/contracts/donations	20,864	24,560	27,984	27,984	25,987
Federal	1,342,612	1,488,048	1,518,634	1,583,989	1,612,717
Other revenues	15,011	32,927	32,042	17,253	20,989
Total revenues	3,168,909	3,410,100	3,514,220	3,857,878	4,109,831
<b>Expenditures</b>					
General government	228,772	239,707	252,486	293,808	466,886
Public safety/corrections	189,507	189,302	208,593	238,929	254,381
Transportation	440,172	510,866	529,555	523,022	559,695
Health/social services	1,079,303	1,018,333	1,114,064	1,186,462	1,274,947
Education/cultural	861,034	894,591	898,988	905,150	976,446
Resource/recreation/environment	111,388	184,359	250,590	206,903	204,413
Economic development/assistance	163,895	168,007	144,381	146,306	151,020
Debt service:					
Principal retirement	36,758	39,002	25,217	27,203	32,546
Interest/fiscal charges	19,780	18,166	14,812	14,171	20,745
Capital outlay	65,056	63,073	60,310	70,851	69,505
Securities lending	3,936	1,734	1,784	4,905	7,663
Total expenditures	3,199,601	3,327,140	3,500,780	3,617,710	4,018,247
Excess of revenue over (under) expenditures	(30,692)	82,960	13,440	240,168	91,584
<b>Other financing sources (uses)</b>					
Loan proceeds	2,132	2,235	-	-	-
Bonds issued	1,785	31,360	5,790	135,380	37,050
Refunding bonds issued	33,605	44,385	20,235	30,070	-
Bond premium	(139)	1,655	478	8,106	2,178
Payment to refunding bond escrow agent	(34,756)	(44,408)	(20,214)	(31,018)	-
Inception of lease/installment contract	482	321	1,297	517	876
Insurance proceeds	-	-	-	-	327
General capital asset sale proceeds	310	312	270	169	164
Transfers in	321,362	231,890	239,638	273,651	292,130
Transfers out	(296,729)	200,605	(210,166)	(244,868)	(259,247)
Total other financing sources (uses)	28,052	67,145	37,328	172,007	73,478
Net change in fund balances	\$ (2,640)	\$ 150,105	\$ 50,678	\$ 412,175	\$ 165,062
Debt service as a percentage of noncapital expenditures	2.0%	1.8%	1.2%	1.3%	1.6%

Source: Statewide Accounting, Budgeting, and Human Resource System

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available beginning in fiscal year 2002.

**SCHEDULE 5 – PERSONAL INCOME BY INDUSTRY**

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Farm Earnings	\$ 295,127	\$ 329,061	\$ 336,530	\$ 390,893	\$ 243,540	\$ 286,085	\$ 179,587	\$ 364,551	\$ 493,984	\$ 506,270
Agricultural/forestry, fishing, and other	82,284	87,637	116,033	140,509	153,663	189,345	176,468	197,456	184,551	197,817
Mining	310,226	331,039	334,151	353,488	378,056	455,664	437,359	456,509	589,823	698,618
Construction/utilities	812,646	862,422	949,346	1,019,946	1,013,657	1,134,142	1,150,017	1,286,615	1,422,930	1,644,855
Manufacturing	907,824	932,489	1,012,992	990,870	1,056,316	994,677	972,587	970,816	1,049,055	1,125,543
Transportation and public utilities	980,149	1,018,457	1,064,492	1,105,624	1,149,160	939,462	957,401	980,395	1,027,782	1,073,754
Wholesale trade	610,586	624,993	654,840	675,370	697,897	630,434	660,867	686,895	756,814	817,378
Retail trade	1,389,389	1,425,510	1,481,694	1,538,007	1,639,454	1,425,133	1,489,275	1,526,214	1,610,752	1,672,163
Finance, insurance, and real estate	639,251	686,853	784,026	856,974	972,587	1,315,939	1,244,419	1,247,050	1,436,262	1,602,071
Services	2,874,391	3,007,741	3,258,980	3,457,003	3,742,485	4,789,559	5,056,160	5,299,623	5,670,846	6,086,975
Federal, civilian	686,609	701,314	721,427	733,730	842,339	851,497	913,187	973,869	1,048,934	1,083,884
Military	250,007	234,031	240,428	252,917	261,623	278,212	335,236	398,500	426,518	456,571
State and local government	1,858,227	1,901,826	1,977,542	2,051,609	2,170,150	2,290,747	2,400,623	2,579,114	2,716,594	2,858,799
Other (1)	5,183,489	5,544,887	5,924,147	5,805,624	6,395,293	6,778,287	6,845,808	7,105,730	7,235,053	7,221,393
Total personal income	\$16,880,205	\$17,688,260	\$18,856,628	\$19,372,564	\$20,716,220	\$22,359,183	\$22,818,994	\$24,073,337	\$25,669,898	\$27,046,091

Average effective rate (2)

2.3%

2.3%

2.4%

2.5%

2.5%

2.5%

2.3%

2.2%

2.4%

2.6%

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce  
Montana Department of Revenue

Notes: (1) Includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance  
(2) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue (Schedule 6) divided by personal income.

**SCHEDULE 6 – PERSONAL INCOME TAX RATES**

Last Ten Calendar Years

(amounts expressed in thousands)

	Calendar Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Personal income tax revenue (1)	\$383,092	\$406,276	\$444,160	\$483,032	\$516,262	\$556,015	\$517,568	\$535,831	\$605,348	\$712,281
Personal income	\$16,880,205	\$17,688,260	\$18,856,628	\$19,372,564	\$20,716,220	\$22,359,183	\$22,818,994	\$24,073,337	\$25,669,898	\$27,046,091
Average effective rate (2)	2.3%	2.3%	2.4%	2.5%	2.5%	2.5%	2.3%	2.2%	2.4%	2.6%

		Tax Rates on the Portion of Taxable Income in Ranges (3)									
Calendar Year 1996											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-1.9	\$1.9-3.8	\$3.8-7.6	\$7.6-11.4	\$11.4-15.2	\$15.2-19	\$19-26.5	\$26.5-37.9	\$37.9-66.4	\$66.4 +	
Calendar Year 1997											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-1.9	\$1.9-3.9	\$3.9-7.8	\$7.8-11.6	\$11.6-15.5	\$15.5-19.4	\$19.4-27.2	\$27.2-38.8	\$38.8-67.9	\$67.9 +	
Calendar Year 1998											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2	\$2-3.9	\$3.9-7.9	\$7.9-11.8	\$11.8-15.8	\$15.8-19.7	\$19.7-27.6	\$27.6-39.4	\$39.4-69	\$69 +	
Calendar Year 1999											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2	\$2-4	\$4-8	\$8-12.1	\$12.1-16.1	\$16.1-20.1	\$20.1-28.2	\$28.2-40.2	\$40.2-70.4	\$70.4 +	
Calendar Year 2000											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.1	\$2.1-4.2	\$4.2-8.3	\$8.3-12.5	\$12.5-16.7	\$16.7-20.8	\$20.8-29.2	\$29.2-41.7	\$41.7-73	\$73 +	
Calendar Year 2001											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.2	\$2.2-4.3	\$4.3-8.6	\$8.6-12.9	\$12.9-17.2	\$17.2-21.5	\$21.5-30.2	\$30.2-43.1	\$43.1-75.4	\$75.4 +	
Calendar Year 2002											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.2	\$2.2-4.4	\$4.4-8.7	\$8.7-13.1	\$13.1-17.4	\$17.4-21.8	\$21.8-30.5	\$30.5-43.5	\$43.5-76.2	\$76.2 +	
Calendar Year 2003											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.2	\$2.2-4.4	\$4.4-8.9	\$8.9-13.3	\$13.3-17.8	\$17.8-22.2	\$22.2-31.1	\$31.1-44.5	\$44.5-77.8	\$77.8 +	
Calendar Year 2004											
Tax Rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	
Income Bracket	\$0-2.3	\$2.3-4.6	\$4.6-9.2	\$9.2-13.8	\$13.8-18.4	\$18.4-22.9	\$22.9-32.1	\$32.1-45.9	\$45.9-80.3	\$80.3 +	
Calendar Year 2005											
Tax Rate	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	6.9%				
Income Bracket	\$0-2.3	\$2.3-4.1	\$4.1-6.2	\$6.2-8.4	\$8.4-10.8	\$10.8-13.9	\$13.9 +				

Sources: Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce; Montana Department of Revenue

Notes: (1) Personal income tax revenue is reported on a fiscal year basis.

(2) Average effective rate equals personal income tax revenue divided by personal income.

(3) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the income amounts in the columns.

**SCHEDULE 7 – PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**

Latest Completed Calendar Year and Five Years Ago

Income Level	Calendar Year 2000				Calendar Year 2005			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$9,999 and under	91,446	24.18%	\$ 3,187,986	0.61%	82,103	20.72%	\$ 1,430,469	0.22%
\$10,000–\$19,999	77,723	20.55	16,612,351	3.20	74,255	18.74	12,023,035	1.81
\$20,000–\$44,999	107,493	28.43	82,235,827	15.87	110,911	28.00	79,224,266	11.87
\$45,000–\$69,999	57,247	15.14	104,556,502	20.18	62,123	15.68	109,104,597	16.34
\$70,000–\$109,999	29,243	7.73	98,321,467	18.97	43,048	10.87	138,376,192	20.72
\$110,000–\$174,999	8,937	2.36	58,461,466	11.28	14,510	3.67	86,436,402	12.93
\$175,000–\$499,999	5,139	1.37	79,512,373	15.34	7,597	1.92	108,153,083	16.19
\$500,000 and higher	914	0.24	75,320,854	14.55	1,575	0.40	133,092,914	19.92
Total	378,142	100.00%	\$518,208,826	100.00%	396,122	100.00%	\$667,840,958	100.00%

Source: Montana Department of Revenue

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented above are intended to provide alternate information regarding the sources of the State's revenue.

**SCHEDULE 8 – RATIOS OF OUTSTANDING DEBT BY TYPE**

Last Five Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities					
General obligation bonds	\$214,135	\$227,625	\$219,645	\$213,195	\$230,065
Special revenue bonds	100,337	85,070	76,368	192,775	181,770
Notes payable	23,203	21,299	12,807	12,439	12,099
Lease/installment purchase payable	3,652	3,286	2,332	2,705	2,459
Total governmental activities	\$341,327	\$337,280	\$311,152	\$421,114	\$426,393
Business-type activities					
Bonds/notes payable	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936
Total business-type activities	\$ 13,914	\$ 10,376	\$ 7,942	\$ 5,168	\$ 3,936
Total primary government	\$355,421	\$347,656	\$319,094	\$426,282	\$430,329
Debt as a percentage of personal income (1)	1.6%	1.4%	1.2%	1.6%	1.6%
Amount of debt per capita (2)	\$391	\$379	\$344	\$460	\$458

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.

(1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule 5.

Used calendar year 2005 personal income for fiscal year 2006 debt percentage calculation.

(2) Amount of debt per capita is calculated by dividing total debt by total population. State population for 2006 is based on a U.S. Census Bureau interim population projection.

**SCHEDULE 9 – PLEDGED REVENUE COVERAGE**

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>Renewable Resource Program Bond</b>										
Revenue										
Loan repayment (principal and interest)	\$3,001	\$3,507	\$3,395	\$4,361	\$3,317	\$3,933	\$3,464	\$3,643	\$ 4,247	\$3,036
Northwestern Energy	2,114	2,455	2,648	2,747	2,269	2,026	2,535	2,348	2,623	2,800
STIP interest earnings	-	-	-	-	-	-	59	119	100	176
Debt service fund interest	-	-	-	-	-	-	72	53	131	223
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$5,115	\$5,962	\$6,043	\$7,108	\$5,586	\$5,959	6,130	6,163	7,101	6,235
Debt service										
Principal	\$2,310	\$2,445	\$2,695	\$3,805	\$2,910	\$3,205	\$4,040	\$4,535	\$10,515	\$4,630
Interest	\$3,418	\$3,507	\$3,381	\$3,225	\$3,030	\$1,714	\$1,975	\$1,919	\$ 1,719	\$1,476
Coverage	0.9	1.0	1.0	1.0	0.9	1.2	1.0	1.0	0.6	1.0

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>Transportation Refunding Bond</b>										
Revenue										
Motor fuel taxes	\$ 166,835	\$ 169,447	\$ 171,265	\$ 178,938	\$ 174,299	\$ 180,600	\$ 181,758	\$ 188,754		
Gross vehicle weight fees	31,067	30,038	30,983	33,935	31,555	26,425	25,339	26,308		
Other	3,817	1,907	9,056	5,141	6,408	6,211	4,132	41,715		
Less: Operating expenses	(204,381)	(192,175)	(210,797)	(226,147)	(212,237)	(202,624)	(199,193)	(281,286)		
Net available revenue	\$ (2,662)	\$ 9,217	\$ 507	\$ (8,133)	\$ 25	\$ 10,612	\$ 12,036	\$ (24,509)		
Debt service										
Principal	\$ 11,235	\$ 11,795	\$ 10,865	\$ 11,355	\$ 11,885	\$ 12,470	\$ 13,095	\$ 3,705		
Interest	\$ 6,129	\$ 3,419	\$ 2,826	\$ 2,315	\$ 1,757	\$ 1,154	\$ 514	\$ 94		
Coverage	(0.2)	0.6	0.0	(0.6)	0.0	0.8	0.9	(6.5)		

**SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued**  
 Last Ten Fiscal Years  
 (amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>US Highway 93 GARVEES Bond</b>										
Revenue										
Motor fuel taxes									\$ 181,153	\$ 196,154
Gross vehicle weight fees									26,547	27,755
Other									50,696	45,070
Less: Operating expenses									(253,722)	(285,334)
Net available revenue									\$ 4,674	\$ (16,335)
Debt service										
Principal									\$ 214	\$ 4,960
Interest										\$ 6,917
Coverage									21.8	(1.4)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>Middle Creek Dam Project Note Payable</b>										
Revenue										
Middle Creek Water Users Assoc loan payments	\$82	\$62	\$79	\$87	\$104	\$104	\$119	\$99	\$99	\$82
Less: Operating expenses										
Net available revenue	\$82	\$62	\$79	\$87	\$104	\$104	\$119	\$99	\$99	\$82
Debt service										
Principal	\$31	\$32	\$33	\$34	\$ 35	\$ 37	\$ 38	\$39	\$41	\$42
Interest	\$51	\$30	\$46	\$53	\$ 69	\$ 67	\$ 81	\$60	\$59	\$40
Coverage	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

**SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued**  
 Last Ten Fiscal Years  
*(amounts expressed in thousands)*

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>Tongue River Dam Project Note Payable</b>										
Revenue										
Tongue River Water Users Assoc loan payments				\$128	\$128	\$128	\$128	\$128	\$128	\$128
Revenue from sale of electricity				162	162	162	162	162	162	162
Less: Operating expenses										
Net available revenue				\$290	\$290	\$290	\$290	\$290	\$290	\$290
Debt service										
Principal				\$290	\$290	\$290	\$290	\$290	\$290	\$290
Interest				-	-	-	-	-	-	-
Coverage				1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>Water Conservation Note Payable</b>										
<b>(Little Dry Project)</b>										
Revenue										
Little Dry Water Users Assoc loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses	-	-	-	-	-	-	-	-	-	-
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Debt service										
Principal	\$1	\$1	\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
Interest	\$2	\$2	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Coverage	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0



**SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued**

Last Ten Fiscal Years

(amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Governmental Activities</b>										
<b>Water Conservation Note Payable</b>										
<b>(Petrolia Project)</b>										
Revenue										
Petrolia Irrigation District loan payments	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
Less: Operating expenses										
Net available revenue	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3	\$3
<b>Debt service</b>										
Principal	\$1	\$1	\$1	\$1	\$1	\$1	\$2	\$2	\$2	\$2
Interest	\$2	\$2	\$2	\$2	\$2	\$2	\$1	\$1	\$1	\$1
Coverage	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Business-type Activities</b>										
<b>Economic Development Bonds</b>										
<b>(Municipal Finance Consolidation Irrigation Dist)</b>										
Revenue										
Principal and interest repayments									\$284	\$512
Investment income									5	3
Less: Operating expenses									-	-
Net available revenue									\$289	\$515
<b>Debt service</b>										
Principal									\$325	\$450
Interest									\$ 81	\$ 30
Coverage									0.7	1.1

**SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued**  
Last Ten Fiscal Years  
(amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Business-type Activities</b>										
<b>Economic Development Bonds</b>										
(Conservation Reserve Enhancement Program)										
Revenue										
Principal and interest repayments									\$2,135	\$1,765
Investment income									4	9
Less: Operating expenses									-	-
Net available revenue									\$2,139	\$1,774
Debt service										
Principal									\$1,937	\$1,475
Interest									\$ 263	\$ 201
Coverage									1.0	1.1

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Business-type Activities</b>										
<b>Economic Development Bonds</b>										
(Municipal Finance Consolidation Act Bonds)										
Revenue										
Principal and interest repayments									\$300	
Investment income									-	
Less: Operating expenses									-	
Net available revenue									\$300	
Debt service										
Principal									\$294	
Interest									\$ 1	
Coverage									1.0	

**SCHEDULE 9 – PLEDGED REVENUE COVERAGE - Continued**  
 Last Ten Fiscal Years  
 (amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Business-type Activities</b>										
<b>MUS Workers Compensation Bonds Payable</b>										
Revenue										
Workers compensation premiums								\$ 2,424	\$ 2,978	\$ 3,543
Less: Operating expenses								(2,489)	(2,785)	(2,932)
Net available revenue								\$ (65)	\$ 193	\$ 611
Debt service										
Principal								\$ 395	\$ 395	\$ 410
Interest								\$ 48	\$ 46	\$ 34
Coverage (1)								(0.1)	0.4	1.4

Sources: Montana Departments of Commerce (Board of Investments), Natural Resources and Conservation, Transportation  
 Montana University System

Note: (1) Coverage equals net available revenue divided by debt service.

**SCHEDULE 10 – RATIOS OF GENERAL BONDED DEBT OUTSTANDING**

Last Five Fiscal Years

(amounts expressed in thousands, except per capita amount, in dollars)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Funds</b>	<b>Total</b>	<b>Percentage of Personal Income</b>	<b>Debt Per Capita</b>
2002	\$214,135	\$15,327	\$198,808	0.87%	\$218
2003	227,625	14,304	213,321	0.89%	232
2004	219,645	14,946	204,699	0.80%	221
2005	213,195	12,957	200,238	0.74%	214
2006	230,065	13,700	216,365	0.80%	227

Source: Statewide Accounting, Budgeting, and Human Resource System

Notes: The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented. Details regarding the State's debt can be found in Note 11 of the financial statements.

- (1) Debt as a percentage of personal income equals total debt divided by total personal income from Schedule 5. Used calendar year 2005 personal income for fiscal year 2006 debt percentage calculation.
- (2) Debt per capita is calculated by dividing total debt by total population. State population for 2006 is based on a U.S. Census Bureau interim population projection.

**SCHEDULE 11 – DEMOGRAPHIC AND ECONOMIC STATISTICS**

Last Ten Calendar Years

	Calendar Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Population										
Montana ( <i>in thousands</i> )	886	890	892	898	904	906	910	918	927	936
Percentage change	1.0%	0.5%	0.2%	0.7%	0.7%	0.2%	0.4%	0.9%	1.0%	1.0%
National ( <i>in thousands</i> )	269,394	272,647	275,854	279,040	282,193	285,108	287,985	290,850	293,657	296,410
Percentage change	1.2%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	0.9%
Total Personal Income										
Montana ( <i>in millions</i> )	16,880	17,688	18,857	19,373	20,716	22,359	22,819	24,073	25,670	27,046
Percentage change	4.9%	4.8%	6.6%	2.7%	6.9%	7.9%	2.1%	5.5%	6.6%	5.4%
National ( <i>in billions</i> )	6,512	6,907	7,416	7,796	8,422	8,717	8,873	9,151	9,717	10,225
Percentage change	6.0%	6.1%	7.4%	5.1%	8.0%	3.5%	1.8%	3.1%	6.2%	5.2%
Per Capital Personal Income										
Montana	19,047	19,877	21,130	21,585	22,929	24,676	25,065	26,227	27,694	28,906
Percentage change	3.8%	4.4%	6.3%	2.2%	6.2%	7.6%	1.6%	4.6%	5.6%	4.4%
National	24,175	25,334	26,883	27,939	29,845	30,574	30,810	31,463	33,090	34,495
Percentage change	4.8%	4.8%	6.1%	3.9%	6.8%	2.4%	0.8%	2.1%	5.2%	4.2%
Resident Civilian Labor Force and Employment										
Civilian labor force	446,900	450,235	459,925	464,782	469,083	470,262	469,778	472,041	485,149	493,533
Employed	422,051	426,363	434,076	440,063	446,742	449,175	448,627	451,043	464,389	473,683
Unemployed	24,849	23,872	25,849	24,719	22,341	21,087	21,151	20,998	20,760	19,850
Unemployment rate	5.6%	5.3%	5.6%	5.3%	4.8%	4.5%	4.5%	4.4%	4.3%	4.0%
Nonfarm Wage and Salary Workers ( <i>in thousands</i> )										
Goods-producing industries										
Natural Resources and Mining	6.4	6.3	6.1	6.1	6.0	6.2	6.2	6.2	7.1	7.8
Construction	17.6	18.3	19.3	20.0	20.4	21.2	21.7	23.1	24.9	27.5
Durable goods	14.3	14.4	14.6	15.1	15.2	14.4	13.1	12.1	12.1	12.3
Nondurable goods	7.6	7.7	7.4	7.4	7.2	7.0	6.9	6.9	7.1	7.1
Subtotal goods-producing industries	45.9	46.7	47.4	48.6	48.8	48.8	47.9	48.3	51.2	54.7
Service-producing industries										
Transp, communications, and utilities	23.1	23.5	24.1	24.6	24.7	24.1	23.7	23.1	23.3	23.7
Trade	66.3	66.9	68.4	69.0	69.4	68.9	68.9	69.1	70.8	71.6
Finance, insurance, and real estate	16.6	17.1	17.6	18.1	18.5	18.8	19.3	20.3	21.1	21.4
Service	131.0	132.7	136.2	140.5	145.2	146.9	151.4	154.2	158.4	162.9
State and local government	64.0	64.7	65.7	66.0	66.8	70.7	71.1	72.0	72.9	72.9
Federal government	12.8	12.6	12.7	12.7	13.4	13.4	13.8	13.8	13.8	13.5
Subtotal service-producing industries	313.8	317.5	324.7	330.9	338.0	342.8	348.2	352.5	360.3	366.0
Total Nonfarm Wage and Salary Employment	359.7	364.2	372.1	379.5	386.8	391.6	396.1	400.8	411.5	420.7

Sources: Population Division, U.S. Census Bureau

Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

Bureau of Labor Statistics, U.S. Department of Labor

Notes: Total personal income is comprised of earned income, dividends, interest and rents, and government transfer payments. Per capita income is calculated by dividing personal income by population; amounts may not be exact due to rounding.

**SCHEDULE 12 – PRINCIPAL EMPLOYERS**

Current Fiscal Year and Nine Fiscal Years Ago

Employer	1997			2006		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of Montana	20,500–21,000	1	4.87%	21,500–22,000	1	4.52%
Federal Government	12,500–13,000	2	2.99	13,500–14,000	2	2.86
Wal-Mart	—		—	4,000–4,500	3	0.88
Deaconess Billings Clinic	N/A	4	—	2,500–3,000	4	0.57
Albertsons	—		—	2,000–2,500	5	0.47
Town Pump	N/A	10	—	2,000–2,500	6	0.47
Better Business Systems	—		—	2,000–2,500	7	0.47
St. Vincent Healthcare	—		—	2,000–2,500	8	0.47
Benefis Healthcare	N/A	3	—	1,500–2,000	9	0.36
Stillwater Mining	—		—	1,500–2,000	10	0.36
Buttreys	N/A	5	—	—		—
K-Mart	N/A	6	—	—		—
Montana Power	N/A	7	—	—		—
Plum Creek Timber	N/A	8	—	—		—
Providence Services	N/A	9	—	—		—

N/A = not available

Sources: Montana Department of Labor  
Bureau of Labor Statistics, U.S. Department of Labor

Notes: Percentage of total state employment (Schedule 11) is based on the midpoints in the ranges given.

**SCHEDULE 13 – FULL-TIME EQUIVALENT STATE EMPLOYEES BY FUNCTION/PROGRAM**

Last Five Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental:					
General government	1,375	1,614	1,575	1,562	1,615
Public safety/corrections	1,925	1,937	1,930	1,955	2,048
Transportation	2,036	2,055	2,025	2,023	2,063
Health/social services	2,674	2,577	2,539	2,575	2,621
Education/cultural	416	429	402	407	428
Resource/recreation/environment	1,430	1,694	1,731	1,765	1,853
Economic development/assistance	912	884	925	952	965
Total governmental	10,768	11,190	11,127	11,239	11,593
Business-type:					
Liquor Stores	28	28	29	27	38
State Lottery	30	31	30	32	32
Economic Development Bonds	4	4	4	4	4
Hail Insurance	2	2	3	2	3
General Government Services	109	102	94	104	96
Prison Funds	38	35	31	32	34
MUS Group Insurance	3	3	3	2	3
Total business-type	214	205	194	203	210
Fiduciary:					
Pension Trust	46	49	47	46	48
Total fiduciary	46	49	47	46	48
Component unit:					
Housing Authority	18	17	19	21	20
Facility Finance Authority	2	2	2	2	2
State Compensation Insurance (New Fund)	228	239	252	261	265
Montana State University	3,878	3,916	3,960	3,994	3,940
University of Montana	3,064	3,129	3,187	3,238	3,281
Total component unit	7,190	7,303	7,420	7,516	7,508
Total full-time equivalent employees	18,218	18,747	18,788	19,004	19,359

 Source: *Statewide Accounting, Budgeting, and Human Resource System*

 Note: *The number of full-time equivalent employees is presented by functional/programmatic categories consistent with the level of expense detail required by GASB Statement 34. Thus, the employee information is available beginning in fiscal year 2002.*

**SCHEDULE 14 – OPERATING INDICATORS BY FUNCTION/PROGRAM**

Last Five Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government					
Department of Revenue					
Electronically-filed income tax returns	140,034	168,231	195,880	224,653	236,200
Paper-filed income tax returns	290,009	265,998	243,247	200,102	203,100
Judiciary					
Supreme Court total filings (1)	798	860	882	738	N/A
District Court total filings (1)	33,443	37,456	38,579	38,619	N/A
Public safety/corrections					
Department of Corrections					
Incarcerated offenders (2)	2,402	2,156	2,307	2,535	2,738
Supervised offenders (2)	7,048	7,787	8,081	8,460	9,287
Department of Justice					
Driver's licenses issued	123,070	112,727	149,714	163,336	171,003
Vehicles registered	1,117,152	1,153,352	1,262,990	972,849	914,184
Department of Military Affairs (Army Program Facilities Office)					
Work orders received	2,500	2,445	2,066	3,272	2,648
Work orders completed	1,950	2,102	1,555	2,843	2,349
Work orders unfunded or not completed	550	343	511	429	172
Transportation					
Department of Transportation					
Paved roads (miles)	18,980	18,998	19,017	19,020	19,050
Unpaved roads (miles)	51,717	51,641	51,624	51,623	55,281
Health/social services					
Department of Public Health and Human Services					
Senior citizens receiving personal long-term care assistance	2,856	2,707	2,801	2,808	2,869
Number of households provided with energy assistance	16,977	18,000	19,125	20,463	21,552
Education/cultural					
Office of Public Instruction					
K-12 public school enrollment	151,947	149,995	148,356	146,705	145,259
Public schools	877	866	859	852	840
Commissioner of Higher Education					
Total enrollment for Montana University System	28,795	29,184	29,520	29,122	29,181
Total enrollment for Colleges of Technology	3,295	3,489	3,663	3,641	3,910
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Revenue generated on state trust lands (millions of dollars) (3)	\$63.4	\$62.5	\$72.8	\$66	\$66
Oil production (millions of bbls) (3)	16.05	18.1	19.9	20.9	21.5
Gas production (millions of mcf) (3)	77.3	78.8	78.9	80.5	82.9
Department of Fish, Wildlife and Parks					
License and permit sales (2) (4)	1,566,842	1,598,180	1,751,581	1,752,315	1,787,361
State park visitation (millions)	1.1	1.6	1.6	1.65	1.7



Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities (continued):					
Resource/recreation/environment (continued)					
Department of Environmental Quality					
Environmental permit applications	3,819	5,047	5,192	6,245	8,044
Environmental violations	2,788	2,888	3,338	3,655	2,166
Economic development/assistance					
Department of Commerce (Community Development)					
Treasure State Endowment Project – applications	55	-	47	-	57
Treasure State Endowment Project – construction awards	-	40	-	40	-
Community Development Block Grant – public facility applications	8	13	10	14	11
Community Development Block Grant – public facility awards	8	12	7	8	7
Business-type activities:					
Unemployment Insurance					
Department of Labor					
Initial claims	58,821	60,300	56,743	50,216	46,697
Average weekly benefit (dollars)	\$185.67	\$195.43	\$200.93	\$209.37	\$202.67
Exhaustion rate (percent)	36.6%	36.4%	38.4%	32.7%	29.8%
Liquor Stores					
Department of Revenue					
Liquor licenses issued	2,210	2,157	2,233	2,262	2,267
Liquor cases distributed	463,881	490,153	513,885	535,635	578,941
State Lottery					
Department of Administration					
Total dollars in ticket sales (millions of dollars)	\$33.63	\$34.68	\$36.74	\$33.81	\$39.92
Transfer to the General Fund (millions of dollars)	\$7.47	\$7.45	\$8.11	\$7.2	\$9.11
General Government Services					
Department of Commerce (HUD Section 8)					
Applications reviewed – homebuyers assistance (dollars) (5)	-	\$1,608,335	\$1,531,543	\$2,290,100	\$466,115
Grants awarded – homebuyers assistance (dollars) (5)	-	\$1,608,335	\$1,531,543	\$1,547,323	\$466,115

N/A = not available

Sources: Governor's Office of Budget and Program Planning, Biennium Executive Budget  
 Montana Departments of Administration, Justice, Military Affairs, and Transportation  
 Montana Commissioner of Higher Education  
 Unemployment Insurance Data Summary, Employment & Training Administration, U.S. Department of Labor

Notes: (1) Operating indicators are reported on a calendar-year basis.  
 (2) Operating indicators for fiscal year 2006 are estimated.  
 (3) Operating indicators for fiscal years 2005 and 2006 are estimates.  
 (4) Effective with fiscal year 2004, license and permit sales reported by license year.  
 (5) As of July 2006, an additional \$483,917 in remaining Community Housing Development Organization (CHDO) set-aside funds was available in the second 2006 application round (deadline: August 1).

**SCHEDULE 15 – CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**

Last Five Fiscal Years

Function/Program	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
General government					
Department of Administration					
Buildings	50	47	47	48	48
Data processing equipment	762	825	866	861	916
Judiciary					
Vehicles	10	50	57	63	61
Public safety/corrections					
Department of Corrections					
Vehicles	413	418	269	288	297
Buildings	160	149	155	152	155
Department of Justice					
Vehicles	389	395	396	401	409
Laboratory/scientific equipment	192	158	164	168	166
Transportation					
Department of Transportation					
Vehicles	4,233	4,055	4,027	4,006	4,032
Buildings	720	763	852	751	729
Health/social services					
Department of Public Health and Human Services					
Vehicles	318	333	323	331	330
Buildings	137	134	135	129	127
Education/cultural					
Historical Society					
Buildings	311	707	15	14	3
Resource/recreation/environment					
Department of Natural Resources and Conservation					
Vehicles	810	853	766	925	672
Buildings	182	181	179	179	177
Department of Fish, Wildlife and Parks					
Vehicles	1,305	1,226	1,238	1,462	1,610
Buildings	1,287	743	761	742	816
Department of Environmental Quality					
Vehicles	52	60	60	60	59
Laboratory/scientific equipment	239	246	131	141	124
Economic development/assistance					
Department of Commerce					
Buildings	7	9	685	685	258
Business-type activities:					
State Lottery					
Department of Administration					
Vehicles	15	17	14	12	14
General government services					
Department of Administration					
Vehicles	21	24	14	13	14
Prison funds					
Department of Corrections					
Vehicles	40	40	42	45	48

Sources: *Statewide Accounting, Budgeting, and Human Resource System*  
*Vehicle Exposure and Commercial Property Schedules, Risk Management and Tort Defense Division*  
*Department of Administration*

Note: *The schedule information is available beginning in fiscal year 2002, the year GASB Statement 34 was implemented.*